

Government of the District of Columbia
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

TO: The Honorable Vincent C. Gray
Mayor, District of Columbia

The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

A handwritten signature in black ink, appearing to read 'N. Gandhi', written over the printed name of the Chief Financial Officer.

DATE: May 1, 2013

SUBJECT: "Beulah Baptist Church Real Property Equitable Tax Relief Act of 2013"

REFERENCE: Bill Number: B20-199, Title VII, Subtitle F

Findings

The real property tax exemptions included in the proposed legislation would allow the property owner, the Beulah Baptist Church of Deanwood Heights and its subsidiary entities, the Beulah Community Improvement Association and the Dix Street Corridor Senior Housing, L.P. (together Beulah Baptist Church), to maintain ownership of properties it plans to develop in the future without paying real property taxes. The Office of Economic Development Finance (EDF) cannot determine whether, once the project is completed, these tax exemptions will be necessary.

The proposed tax exemptions extend prior exemptions (originally authorized to begin in 2006 and expire in 2010) through FY 2020. Emergency and temporary legislation has been passed and funded to extend these exemptions through FY 2013.¹ The proposed legislation would continue these exemptions for an additional seven years. The exemptions would significantly reduce Beulah Baptist Church's costs of holding the properties. However, the legislation places no restrictions on ownership or use, so the exemptions would remain in effect, regardless of whether the properties

¹ Beulah Baptist Church Real Property Equitable Tax Relief Emergency Amendment Act of 2012, enacted January 22, 2013 (D.C. Act 19-621; D.C. Official Code § 47-4654) and Beulah Baptist Church Real Property Equitable Tax Relief Temporary Amendment Act of 2012, enacted January 31, 2013 (D.C. Act 19-665; D.C. Official Code § 47-4654).

are held, developed, or sold by Beulah Baptist Church.² Providing a long-term exemption to any owner may increase the owner’s ability to obtain financing, however by exempting these properties from taxation, the Council also eliminates an incentive to the owner to move forward expeditiously on the development project.

The owner is proposing to develop a 72-unit affordable housing project. Based on the current state of the development plan, it is unclear how long the development will take to move forward. The project information received by EDF is too preliminary to complete a financial analysis on the proposed project.

If the property is developed as proposed, Beulah Baptist Church would likely receive an as-of-right exemption under the Nonprofit Affordable Housing Developer Tax Relief Act of 2012³. If the Council chooses to provide the proposed exemptions from real property tax, EDF recommends that the Council limit the exemption to two or three years, a time period sufficient to reach the start of construction. Such a limitation would protect the District by providing an incentive to the owner to move forward expeditiously. In addition, the Council could add a clause to the proposed legislation that would require Beulah Baptist Church to pay back exempt taxes in the event that it chooses to sell the property or to develop the property for commercial purposes rather than for affordable housing as proposed.

Background

The proposed legislation would exempt from real property taxes certain properties, owned by Beulah Baptist Church, through September 30, 2020.

The property consists of 2.76 acres of land, which is substantially vacant. The current assessed value of the 25 parcels is \$4.3 million. The properties were acquired by Beulah Baptist Church beginning in 2002 and through 2008 for development purposes. Since 2008, the project has been stalled. The owner is currently working to obtain development partners, and to reconfigure the development as family housing. The current proposed development project, called “58th Street Commons,” would create 72 units of affordable housing: 36 three-bedroom units and 36 four-bedroom units and is projected to cost approximately \$19 million.

In 2011, the Council passed legislation that provided retroactive tax-exemptions to all 25 properties beginning in FY 2006 and through FY 2010⁴. That legislation also prevented any of the 25 parcels from being taxed at the vacant or blighted property tax rates. In January of 2013, the Council passed and funded emergency and temporary legislation that effectively extended those exemptions through FY 2013.

² The owner has indicated that it would be satisfied with a requirement that the future use of the property must be affordable housing or other community serving retail or facilities, and that the future ownership structure include a non-profit organization.

³ Enacted as Title VII, Subtitle M of the Fiscal Year 2013 Budget Support Act of 2012, effective September 20, 2012 (D.C. Law 19-168; D.C. Official Code § 47-1005.02) as amended by the Fiscal Year 2013 Budget Support Technical Clarification Temporary Act of 2012, effective March 19, 2013 (D.C. Law 19-226), amendments expected to be made permanent in the Fiscal Year 2014 Budget Support Act of 2013, introduced March 28, 2013 (Bill 20-199).

⁴ Beulah Baptist Church Tax Relief Act of 2011, enacted as Title VII, Subtitle H of the Fiscal Year 2012 Budget Support Act of 2011, effective September 14, 2011 (D.C. Law 19-21; D.C. Official Code § 47-4654).

The purpose of the proposed legislation is to exempt Beulah Baptist Church from paying real property taxes on the properties as it works to find a development partner, obtain financing, and get a new development built in Ward 7. The legislation extends the exemptions seven additional years through FY 2020. However, if the church is successful in finding a development partner and securing financing, the project would likely receive Low Income Housing Tax Credits, and therefore be eligible for as-of-right real property tax exemptions.

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by EDF to contain certain information. The required information is included below. A separate fiscal impact statement was prepared by the Office of Revenue Analysis on the proposed legislation.

Terms of the Exemption or Abatement

The legislation states that the Beulah Baptist Church properties shall be exempt from taxation through FY 2020 regardless of whether Beulah Baptist Church remains the owner. No parameters regarding use of the land during the exempt period are provided.

1. Annual Proposed Value of the Exemption or Abatement

The emergency and temporary legislation related to this legislation have passed and funded repayment of taxes paid or due between the previous 2010 expiration date and FY 2013. Therefore, this legislation effectively applies only to FY 2014 through 2020. Assuming the properties remain undeveloped for that 7-year period EDF estimates the proposed value of the exemptions to be:

Projected Value of the Real Property Tax Exemptions FY 2014 – FY 2020							
FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Total
\$59,120	\$60,361	\$61,860	\$63,840	\$65,499	\$67,202	\$68,950	\$446,833

Note: Assumes parcels continue in their current use and are not taxed at vacant or blighted rates.

Assuming the project is developed as affordable housing as proposed, EDF expects that the project would qualify for and receive a Low Income Housing Tax Credit allocation from the Department of Housing and Community Development (DHCD). Therefore, the property would be eligible for an as-of-right exemption upon DHCD certification pursuant to District law.⁵

If the property was developed for an alternate, taxable use, the value of the real property tax exemption would be significantly higher.⁶

⁵ Nonprofit Affordable Housing Developer Tax Relief Act of 2012, effective September 20, 2012 (D.C. Law 19-168; D.C. Official Code § 47-1005.02) as amended.

⁶ For example, if a \$19 million commercial development was built on the site, the annual value of the exemption would be approximately \$345,000.

2. Summary of the Proposed Community Benefits

A summary of the proposed community benefits as submitted by Beulah Baptist Church is attached to this analysis as Appendix A.

3. Financial Analysis for Development Projects

A. *Review and Analysis of the Financing Proposal Including Advisory Opinion Stating Whether or Not It is Likely that the Project Could Be Financed Without the Proposed Exemption or Abatement*

Beulah Baptist Church provided EDF with preliminary cost estimates for the 72-unit affordable housing project. The project is estimated to cost approximately \$19 million and provide 36 three-bedroom units and 36 four-bedroom units. However, the financial information provided for the development is too preliminary for EDF to complete a financial analysis, as the owner has not identified a development partner, developed plans and specifications, and has not developed a final *pro forma* to include proposed debt and equity providers as well as any other forms of public subsidy. Therefore, EDF cannot state whether the project could be financed without the proposed exemption. However, if the project moves forward as anticipated by the owner, it is likely that the project would receive Low Income Housing Tax Credits and qualify for an as-of-right real property tax exemption under the Nonprofit Affordable Housing Developer Tax Relief Act of 2012. This exemption would apply “during the time that the real property is being developed for or being used as affordable housing and is subject to restrictive covenants governing income during the federal Low Income Housing Tax Credit compliance period, including any extended use period.”

B. *Estimate of the Amount of Exemption or Abatement Necessary to Enable the Project to Be Financed*

As stated above, an assessment of the amount of exemption needed for this development cannot be made at this time. It is not clear whether the proposed tax exemptions are necessary to support the proposed development project.

In the interim, Beulah Baptist Church currently does not have sufficient cash flow to pay the real property taxes.⁷ Beulah Baptist Church and its subsidiaries are not-for-profit organizations and the vast majority of their annual budget comes from donations. Therefore, if the properties were not tax-exempt, the likely options for meeting the real property tax obligations are relying on reserves, raising new donations, cutting other expenses, or selling some or all of the properties for similar or alternative uses.

C. *Assessment of the Developer’s Documentation of Efforts to Seek Alternate Financing and the Factors that Limit the Developer’s Ability to Obtain Adequate Financing*

Beulah Baptist Church is currently working to put together a development team. While the site has been rezoned, Beulah Baptist Church does not have a development partner, site plans, debt, or equity. Because the proposed development is so early in the planning stages, EDF cannot evaluate the developer’s effort to seek financing. The owner’s submission indicates that the project will seek a \$500 per-unit rent subsidy to keep the rents affordable, and that the project developers will seek

⁷ Unaudited financial statements for Beulah Baptist Church of Deanwood Heights and Beulah Community Improvement Corporation for 2012.

Low Income Housing Tax Credits to provide equity to the project. With that capital structure in place, private mortgage financing could become available to the project. At that time, EDF would be able to assess whether tax exemptions would also be needed to finance and operate the project. However, under the proposed scenario, the project would be expected to receive an as-of-right real property tax exemption under the D.C. Code.

Other Considerations

The Council and Mayor may want to consider the precedent set by the proposed legislation. There are many not-for-profit, religious organizations in the District that own property that is vacant and/or awaiting development. The Council and the Mayor may not want to subsidize these organizations through extended tax exemptions while they assemble and hold properties. Additionally, at some point during the seven additional years of the proposed exemptions, the owner could develop the properties for another, commercial purpose or could sell the land, rather than develop it as affordable housing. To address this issue, the Council and the Mayor could add a clause to the proposed legislation that would require Beulah Baptist Church to pay back some or all of the exempt taxes in the event that Beulah Baptist Church chooses to sell the property or to develop the property for commercial purposes rather than to develop the property for affordable housing as currently contemplated. The Council could also choose to shorten the exemption period as an incentive for the owner to expedite the development process.

APPENDIX A

Summary of Community Benefits
as submitted by
Beulah Baptist Church of Deanwood Heights

The 58th Street Commons project will provide the community with a number of benefits as outlined below:

- a. The project will produce 72 affordable dwelling units. The units will be comprised of 36 three-bedroom units and 36 four-bedroom units, which responds to the need for affordable housing in the District for families.
- b. The residential units will be affordable in accordance with the affordability standards pursuant to which the development is funded and will comply with Chapter 26 (Inclusionary Zoning) of the Zoning Regulations.
- c. This project anticipates 72 units of affordable dwelling units. With an anticipated average monthly rent subsidy of \$500 for the 36 three-bedroom units and \$600 for the 36 four-bedroom units when compared to the city-wide rents for similar sized units, this represents monthly gross rent differential of \$39,600 and an annual gross rent differential of \$475,200 when the project is fully leased.
- d. During construction, the project will create approximately 50 jobs. 5-6 jobs will continue beyond construction. Of the permanent jobs created, approximately half will be full-time and approximately half will be part-time jobs. Fifty percent of the jobs will be performed by District of Columbia residents.