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

DATE: **January 9, 2013**

SUBJECT: **"Jubilee Housing Residential Rental Project Property Tax Exemption and Equitable Real Property Tax Relief Act of 2012"**

REFERENCE: **Bill 19-1009**

Findings

The real property tax exemption proposed by Bill 19-1009 is necessary if the District would like Jubilee Housing, Inc. (Jubilee, Inc.) to continue to maintain the affordable apartments located in the four identified buildings. This finding is based on information submitted to the Office of Economic Development Finance (EDF) by the property owner.

The legislation would authorize the tax exemption so long as the real properties continue to be owned by Jubilee, Inc. or its affiliate and continue to comply with the federal low-income housing tax credit restrictions. The total value of the proposed exemption from 2013 through 2046 is estimated to be $6.5 million.

Please refer to the separate Fiscal Impact Statement for the effect of the proposed legislation on the District's FY 2013 through FY 2016 budget and financial plan.

Background

The Jubilee Housing Residential Rental Project Property Tax Exemption and Equitable Real Property Tax Relief Act of 2012 (Act) would exempt the properties described as Lots 62, 63 and

809 in Square 2576, and Lot 818 in Square 2566[1] (together, the Properties) from real property taxes beginning on October 1, 2012, provided the Properties are owned by Jubilee, Inc. or its for-profit subsidiary and comply with the low-income housing tax credit restrictions.

The Properties were redeveloped over a four-year period from 2005 through 2009. The properties contain 118 affordable rental units, 3 after-school programs and a computer lab. Total redevelopment costs were approximately $24 million. These costs were financed through a combination of 9% low-income housing tax credit equity (LIHTC), Department of Housing and Community Development (DHCD) loans, numerous grants, Jubilee-affiliate loans and deferred developer fees.

Based on the use of LIHTC and DHCD loans, the rents on the units are set by deed restrictions on the Properties at the levels listed below:

- 8% of units below 30% of AMI;
- 32% of units at between 30% and 50% AMI; and
- 60% of units below 60% AMI.

However, the proportion of units with rents below 30% of Area Median Income (AMI) is actually higher than that required by the restrictions.

Jubilee, Inc. (a nonprofit entity) has owned the Properties for over 30 years. During this time, Jubilee, Inc. rented its units at below-market rates and the Properties were tax exempt. In 2005, Jubilee, Inc. decided to rehabilitate the Properties using a variety of financing sources, including LIHTC equity. The Internal Revenue Service requires the involvement of a for-profit entity to take advantage of the federal LIHTC program. As a result, Jubilee, Inc. sold the Properties to Jubilee Housing, LP (Jubilee, LP). At the time of the sale in 2005, the Properties became subject to real property taxes.

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided contain certain information. The required information is below.

<u>Terms of the Exemption of Abatement</u>

The legislation states that the Properties shall be exempt from real property taxation so long as they are owned by Jubilee, Inc. or Jubilee, LP, continue to be subject to applicable federal low-income housing tax credit restrictions, and are not used for commercial purposes. This analysis assumes that the tax exemption will be in place until at least 2046.

[1] The draft legislation improperly identifies Lot 63 in Square 2576 as Lot 65 in Square 2576 and Lot 818 in Square 2566 as Lot 818 in Square 2536. EDF expects this to be corrected at mark-up.

Annual Proposed Value of the Exemption or Abatement

Projected Value of Tax Exemption						
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017 – FY 2046**	**Total FY 2013 – FY 2046**
Real Property Tax Exemption	$121,682	$125,332	$128,591	$131,934	$6,038,496	$6,546,036

The estimated value of the real property tax exemption from FY 2013 through FY 2046 is $6,546,036, which is based on an annual increase in property assessed value of 2.6 percent in FY 2017 and beyond.

Summary of the Proposed Community Benefits

A summary of the proposed community benefits as submitted by the project sponsor is included in the attached document.

Financial Analysis

Review and Analysis of the Financial Condition of the Recipient and Advisory Opinion Stating Whether or Not It Is Likely that the Recipient Could Be Reasonably Expected to Meet Its Fiscal Needs without the Proposed Exemption or Abatement.

Jubilee, Inc. provided EDF with property financial statements and future projected cash flows. The sources of funds used to rehabilitate the Properties do not include any traditional debt or equity. The first mortgage was provided by the Department of Housing and Community Development and funded using the Housing Production Trust Fund, and there are a number of subordinated loans payable only to the extent cash flow is available.

The rehabilitation was financed using the following sources:

Source	**Amount**
DHCD-Housing Production Trust Fund Loan	$3,554,306
DHCD-HOME Loan	$5,536,787
Deferred Developer Fee	$1,232,130
Jubilee-Affiliate Loan	$400,000
Jubilee Take-Back Loan	$2,092,554
LIHTC Equity	$7,447,000
Jubilee Equity	$1,300,000
Federal Home Loan Bank Grant	$500,000
Department Of Mental Health Grant	$940,000
DHCD Lead-Safe Washington Grant	$302,000
Jubilee-Affiliate Grant	$50,000
Citibank Grant	$20,000
ANC Grant	$1,000
Coalition for Nonprofit Housing and Economic Development Grant	$4,500
Total	$23,678,277

Jubilee, LP faces restricted income potential due to the affordability provisions and does not generate sufficient cash flow from operations to make payments on its loans and pay annual real property taxes. The annual real estate taxes paid by the Properties in previous years have resulted in Jubilee, LP deferring interest on its various loans. EDF estimates that in the absence of a real property tax exemption, cash flow generated by operations would be insufficient to pay the majority of the deferred developer fee or to repay Jubilee, LP's subordinated cash flow loans prior to their expected maturities.

Note

The Nonprofit Affordable Housing Development Tax Relief Act of 2012[2] that was passed by the Council in 2012 provides a real property tax exemption for properties that provide low-income housing and are owned by an organization that is not organized or operated for private gain, or are owned by an entity controlled, directly or indirectly, by such an organization. It is EDF's understanding that this act applies only to properties that begin using low-income housing tax credits after October 1, 2012. Because the Properties outlined in the proposed legislation became subject to LIHTC affordability restrictions prior to October 1, 2012, the Nonprofit Affordable Housing Development Tax Relief Act of 2012 does not apply.

[2] Enacted as part of the Fiscal Year 2013 Budget Support Act of 2012, effective September 20, 2012 (D.C. Law 19-168; 59 DCR 8025).