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:	**April 4, 2013**
SUBJECT:	**"Trinity Plaza Affordable Housing Project Real Property Tax Exemption Act of 2013"**
REFERENCE:	**Bill Number 20-38**

Findings

The tax exemptions proposed by Bill 20-38, the Trinity Plaza Affordable Housing Project Real Property Tax Exemption Act of 2013, are not necessary for the proposed Trinity Plaza development project to move forward. The residential portion of the project, which is a majority of the proposed development, will qualify for as-of-right tax exemptions under existing provisions of the DC Code. The 2,099 square feet of office space will also be exempt as-of-right due to its ownership and use by two nonprofit organizations serving the local community. The remaining commercial portions will be leased to commercial businesses which are likely to reimburse the nonprofit sponsor for their share of the property's taxes.

The total value of the proposed exemptions on the commercial space is estimated to be $1.3 million.

Please refer to the Office of Revenue Analysis' 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 Far SW-SE Community Development Corporation (Owner) plans to develop a 70,060 square foot mixed-use project in the Southeast community of Bellevue in Ward 8, composed of 54,099 square feet of affordable housing (inclusive of 49 units), 6,118 square feet of commercial space

(34% of which is office space and 66% which is retail-oriented), and 9,843 square feet of parking. A portion of the office space will be occupied by the owner.

The bill proposes a 35-year property tax exemption for the entire property[1]. However, the Owner is eligible for an as-of-right property tax exemption for the affordable housing portion of the development under the Nonprofit Affordable Housing Developer Tax Relief Act of 2012, enacted as Section 7131 of the FY 2013 Budget Support Act of 2012, effective September 20, 2012.[2]

Also under District law[3], the Owner and its associate nonprofit organization, Lydia's House, will be eligible to receive as-of-right tax exemptions during the period that they operate out of the office spaces within the project, given that they operate as District-based nonprofit entities focused on public charity in the District.

The proposed bill would extend a real property tax exemption to the remaining commercial portion of the development, including its associated parking spaces. This section will be leased by for-profit tenants who will operate a retail pharmacy and a café, respectively. The parking section will be used by residents, employees, clients of the nonprofit organizations, and retail customers.

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the Office of the Chief Financial Officer's Office of Economic Development Finance (EDF) to contain certain information. The required information is included below.

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

The legislation states that the property shall be exempt from real property tax liability for no less than 35 years (in accordance with the term of the tax exempt bonds), beginning on the day after the transfer of the property to Trinity Plaza LLC. Trinity Plaza LLC or its assignees may claim the exemption.

<u>Annual Proposed Value of the Exemption or Abatement</u>

Because the property appears to be eligible for an as-of-right exemption on the residential space and the office portions that will be occupied by nonprofit organizations, EDF has only estimated the value of the real property tax exemption on the retail portion (including the associated parking portion) of the project. EDF estimates that the proposed value of the exemption over the next 35 years, through FY 2047, is $1.3 million.

The estimated value of the proposed real property tax exemption is:

Projected Value of Property Tax Exemption for Trinity Plaza						
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017 - FY 2047**	**TOTAL FY 2013- FY 2047**
Real Property Tax Exemption	$ 9,313	$ 31,664	$ 23,029	$ 23,628	$ 1,261,155	$ 1,348,790

[1] The property is located in Lot 8, Square 6150 at 3939 South Capitol Street, S.W.
[2] D.C. Law 19-168; D.C. Official Code § 47-1005.02
[3] D.C. Official Code § 47-1002.

Summary of the Proposed Community Benefits

A summary of the proposed community benefits, as provided by the Owner's development partner, Mission Community Development Corporation (Mission First CDC), is attached to this analysis as Attachment A.

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

According to current District law, the office space occupied by the sponsor and the residential portion of the development appear to be tax-exempt. The Owner has received letters of intent for the retail portion of the project that stipulate that the future commercial tenants lease payments will include a reimbursement of their share of property taxes billed. Since the Owner expects to receive market-rate rents from these tenants, there is no demonstrated need for the exemption on the retail portion of the property. A full exemption would also be redundant for the residential section of the development.

Mission First CDC submitted the following construction budget for Trinity Plaza:

SOURCES	
DCHFA Senior Funding	5,450,000
Commercial Condo Release	500,000
DHCD Subordinate Loan	3,950,000
NIF/DMPED/Enterprise Grant	826,000
Deferred Developers Fee	397,678
Low Income Tax Credit Equity	5,236,313
Total Financing Sources	16,359,991
USES	
Acquisition	1,350,000
Construction Costs	10,319,657
Construction-Related Professional Fees	1,283,190
Permanent Financing Fees	755,754
Soft Costs	276,533
Developer Fee	2,000,000
Reserves	374,857
Total Financing Uses	16,359,991

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

N/A

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

The Owner has in place sufficient financing to complete the project. The proposed project includes affordable apartment units with restricted rents, and the Owner's sources of funds to construct the development do not include any traditional debt or equity. However, the Owner has demonstrated its ability to secure many types of alternative financing to support it; the first mortgage is being provided by the DC Housing Finance Authority, and the second mortgage from the Department of Housing and Community Development and developer's fee will be payable only to the extent that cash flow is available. The Owner is contributing $500,000 in equity, which is its payment for purchasing the commercial portion of the property. The remaining sources are local government grants and Low Income Housing Tax Credit equity.

Attachment A

Community Benefits
Supplied by Mission First Community Development Corporation

1. Elimination of blight;
2. Improve public safety;
3. Creation of 49 units of quality, affordable housing;
4. Creation of quality, needed retail services;
5. Creation of jobs during project development;
6. Creation of jobs to staff retail and office establishments; and
7. Stabilize family/community.