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

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Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

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

The Honorable Kwame R. Brown
Chairman, Council of the District of Columbia

FROM: **Natwar M. Gandhi**
Chief Financial Officer

DATE: **March 12, 2012**

SUBJECT: **"Carver 2000 Low-Income and Senior Housing Project Amendment Act"**

REFERENCE: **B19-437: draft committee print as discussed verbally with the OCFO**

Findings

The OCFO has been asked to analyze a proposed committee print of Bill 19-437 that would include a tax exemption for "Phase I" and "Phase II" of the Carver Low-Income and Senior Housing Project. The findings below will discuss each Phase separately.

The future tax exemptions proposed for the Phase I portion of the project[1] are likely to be necessary because of the narrow margins under which the project operates. To date, project cash flow has been insufficient to make any payments on the portion of the project's developer fee that was deferred, or the soft second loans. The proposed retroactive exemption for tax year 2011, which would result in a refund of taxes paid, is not necessary, however. While the project does not require such a refund to pay its current operating expenses or first mortgage debt service, continuing payments of real estate taxes over the next 7 years would put cash flow pressure on the project.

The tax exemptions proposed for the Phase II portion of the project[2] are necessary through April 2014 if the District would like the Carver 2000 Tenants Association to maintain control of the property and move forward on pre-development activities. However, at this time, we cannot verify

[1] Phase I of the project is located on Square 5140, Lot 88 and consists of a completed apartment building.
[2] The portion of the property referred to as Phase II of the project is located on Lots 1 - 8 in Square 5348 and Lots 806 – 808 in Square 5190, and it is currently vacant.

that the tax exemption is still required once financing for the project becomes available and construction commences.

The proposed exemptions total an estimated $1.97 million over the 8-year period of the exemption. Please refer to the Office of the Chief Financial Officer's (OCFO) separate Fiscal Impact Analysis for the effect of the proposed legislation on the District's FY 2012 through FY 2015 budget and financial plan.

Background

The property for which the exemptions are proposed was previously known as George Washington Carver Apartments. It is located on East Capitol Street, SE in Ward 7. The property was acquired in 2003 by the Carver 2000 Tenants Association, under the Tenant Opportunity to Purchase Act (TOPA). The District Department of Housing and Community Development (DHCD) provided the tenants with $2,444,000 to use for the acquisition. Also at that time, the District authorized an 8-year tax exemption for the property[3]. The District made additional grants and loans to the Tenants Association to fund pre-development costs, demolition and relocation costs. The total amount provided through 2005, including the acquisition amount, was $6,689,000 (sourced from a combination of Housing Production Trust Fund and Community Development Block Grant funds).

In conjunction with Housing Production Trust Fund requirements, the Tenants Association was required to develop at least 132 units of housing for those earning less than 60% of the Area Median Income (AMI). In 2007, the Tenants Association and its development partners completed Phase I of the project, a 104-unit apartment building reserved for low-income seniors.

In the Phase I apartments, 94 units are restricted at the 60% AMI level and 10 units are restricted at the 50% AMI level. Current monthly rents are below the maximum allowable levels. The rents are partially paid by the tenants (who pay 30% of their income) and partially paid by the District of Columbia Housing Authority under a Housing Assistance Payment (HAP) contract. The HAP contract runs through October 2017, subject to funding availability.

Phase II of the project must include at least 28 additional affordable housing units. Phase II experienced a delay after some original residents refused to relocate and filed a lawsuit, preventing final razing of the previous structures until 2009. Further, there were demolition cost overruns, and a demolition contractor who is owed money has placed a mechanic's lien on the Phase II property. In January 2012 Council approved a modification to the DHCD loans to provide the Tenants Association with an additional $1,180,000 for predevelopment cost overruns. The development team now estimates completing predevelopment work over the next two years and beginning Phase II construction in April 2014.

Financial Analysis

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

[3] See D.C. Official Code § 47-4605.

Terms of the Exemption or Abatement

The legislation states that the property shall be exempt from taxation for 8 years, and would be retroactive to Tax Year 2011. Therefore, the tax exemptions would be in place through FY 2018. Under the expected committee print version, the term would be the same for Phase I and Phase II.

Annual Proposed Value of the Exemption or Abatement

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

	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016 – FY 2018**	**Total**
Phase I TY 2011 Tax Liability[4]	$143,761	$0	$0	$0	$0	$143,761
Phase I[5]	$97,071	$97,071	$99,983	$102,583	$324,030	$720,737
Phase II TY 2011 Tax Liability[6,7]	$57,614	$0	$0	$0	$0	$57,614
Phase II[6]	$49,760	$49,441	$50,924	$52,248	$845,424	$1,047,796
Total	$348,206	$146,512	$150,907	$154,830	$1,169,454	$1,969,908

The estimated value of the real property tax exemptions are based on a FY 2016 completion date for proposed Phase II construction.

Summary of the Proposed Community Benefits

A summary of the proposed community benefits as submitted by the project sponsor is attached to this analysis.

Financial Analysis for Development Projects

1. *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*

Phase I – Based on project financial statements provided by the owner, the senior apartments operate under tight margins. This was particularly evident for the project's financial period ending December 31, 2011, during which the project's previous tax exemption expired and it paid real property taxes. Although the proposed tax refund is not necessary for the project to be a going concern, continuing payments of real estate taxes would cause the project cash flow pressure and cause extended delay in the repayment of its deferred developer fee note and DHCD soft loans. Since the opening of the project, there has not been any surplus cash to make any payments toward the deferred developer fee[8] or DHCD loans. If the Council approved the proposed exemption but no

[4] Assumes a refund would be issued in FY 2012 for taxes paid in FY 2011.
[5] Annual liability based on new revised 2012 assessment of $11,420,100 and estimated annual growth.
[6] Based on expected correction of tax class.
[7] Includes an estimate of penalty and interest due; final calculation subject to increase.
[8] The total developer fee earned was approximately $2 million; $1.5 million was paid out of the original project financing sources and the remaining deferred portion is $584,786.

refund for 2011 taxes paid, the project could potentially have sufficient cash flow to repay deferred developer fee by 2017 and begin to make payments on the DHCD loans in 2018. Without the proposed tax exemption, we estimate that deferred developer fee would require an additional 6 years to be fully repaid, and the project could not begin to make payments on the DHCD loans until after that time.

Phase II - Based on the OCFO's analysis of the information provided by the developer and in the absence of construction financing, the Carver 2000 Tenants Association does not have a current source of income to pay the annual real property taxes on the approximately 200,000 square-foot property. The development team currently estimates that a residential project of up to 200 affordable rental units could be built on the property and that construction could begin in April 2014 at the earliest. The plans have not been through the zoning approval process, however. Because the expected start date of construction is at least two years away and the development plan is still preliminary[9], the OCFO cannot advise on the sufficiency (or insufficiency) of project financing or operating income to pay real estate taxes beyond April 2014.

The project sponsor's current *pro forma* proposes the following sources and uses:

Proposed Phase II Financing Plan

	$ in millions
Sources	
1st Mortgage	$18.9
Low Income Housing Tax Credit Equity	9.4
Soft Second Loans	5.4
Total Financing Sources	**$33.7**
Uses	
Construction Contract	21.9
Soft Costs	8.2
Developer Fee	3.6
Total Financing Uses	**$33.7**

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

Phase I – The project is already complete, however the OCFO advises that a real property tax exemption is necessary for the next 7 years due to the risk of operating on its current narrow margins, and to allow the timely repayment of deferred developer fee and DHCD soft second loans.

Phase II - Based on our analysis of the materials provided, the OCFO advises that the tax exemption is necessary through April 2014, to allow the Tenants Association to proceed with predevelopment

[9] The development team submitted a *pro forma* for 28 townhomes and 160 apartment units, however, in a December 2011 letter to Chairman Brown, Mayor Gray described the proposal as 83 townhomes and a 30-unit condominium complex.

activities. At this time, however, we cannot estimate whether the tax exemption is needed once the development plan is finalized.

3. *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*

Phase I – The senior apartments were financed with approximately $7 million of equity from the sale of Low-Income Housing Tax Credits, a permanent mortgage from the District of Columbia Housing Finance Agency, and $2.35 million of soft second loans from DHCD.

Phase II - The project sponsor plans to take advantage of debt financing through the District of Columbia Housing Finance Agency and be awarded federal Low-Income Housing Tax Credits. Sale of the tax credits will provide the project with its equity. Soft second loans are also proposed for the project.