

PUBLIC HEARING ON

Bill 19-530

**King Towers Residential Housing Real Property Tax
Exemption Clarification Act of 2011**

**Before the
Committee on Finance and Revenue
Council of the District of Columbia
Councilmember Jack Evans, Chairman**

**February 29, 2012
10:30 AM
John A. Wilson Building, Room 120**



**Testimony of
John Ross
Senior Advisor to the Chief Financial Officer
For Economic Development Finance**

**Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am John Ross, Senior Advisor to the Chief Financial Officer for Economic Development Finance. I am pleased to testify today on behalf of the CFO on the “King Towers Residential Housing Real Property Tax Exemption Clarification Act of 2011.”

The proposed legislation would exempt the property located in Square 281, Lot 49 (King Towers) from economic interest transfer tax and from real property tax owed for September and October 2010. The proposed legislation is a clarification of existing law.

King Towers is a low-income housing residential property, which is subject to a U.S. Department of Housing and Urban Development (HUD) Use Restriction Agreement through the year 2047. A for-profit entity acquired the property in August 2010, in order to take advantage of federal Low-Income Housing Tax Credits and District of Columbia Housing Finance Agency bond financing. The new owner, King Towers, LLC, used the funds to renovate the property.

Prior to August 2010, the property was exempt from real property taxes under Chapter 8 of the DC Code as well as PILOT payments under Chapter 10 of the DC Code. In addition, the property was exempt from deed recordation, deed transfer and economic interest transfer taxes.

Because the ownership of the property changed from a nonprofit entity to a for-profit entity and the renovation required the HUD 221(d)(3) Below Market Interest Rate mortgage to be refinanced, King Towers became subject to real property taxes and economic interest transfer taxes. In 2010, the Council granted a real property tax exemption to King Housing, LLC. The previous bill did not include an exemption from deed recordation, deed transfer or economic interest transfer taxes.

The total abatement would equal approximately \$648,000, which includes approximately \$90,000 in penalties and interest.

The Exemptions and Abatements Information Requirements Act of 2011 requires the Office of the Chief Financial Officer (OCFO) to undertake a financial analysis of all proposed tax abatement legislation. The owner provided the OCFO with their financial statements, projected cash flows,

and loan documents. Based on the OCFO's analysis of the information provided, King Housing, LLC does not have sufficient funds to pay the required economic interest and real property tax payments.

If King Housing, LLC was required to pay economic interest transfer taxes as well as real property taxes for September and October 2010, the OCFO estimates that it would be required to delay final payment of its \$549,090 deferred developer fee until the end of 2015. In addition, the OCFO estimates that King Housing, LLC would not be current on interest payments on two soft second loans until 2039 and 2040, respectively. Given the tight margins under which King Housing, LLC operates King Towers, a \$648,512 tax payment in 2012 would place significant stress on the future cash flow of the property.

Funds are not sufficient in the FY 2012 through FY 2015 budget and financial plan to implement the provisions of the bill. Enactment of the bill will reduce tax collections in FY 2012 in the amount of \$648,511. There is no cost in subsequent years.

Thank you for the opportunity to testify. I am happy to answer any questions at this time.