PUBLIC HEARING

ON

Bill 19-741, "The Parkside Parcel E and J Mixed-Income Apartments Tax Abatement Act of 2012"

Before the
Committee on Finance and Revenue
Council of the District of Columbia

Councilmember Jack Evans, Chairman

May 31, 2012;10:00 AM
John A. Wilson Building, Room 412

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 Office of the Chief Financial Officer (OCFO) on Bill 19-741, the "Parkside Parcel E and J Mixed-Income Apartments Tax Abatement Act of 2012."

The proposed legislation would grant a real property tax abatement for two parcels of land located in the Parkside neighborhood of Ward 7, in Square 5041, Lot 808 and Square 5056, Lot 0811. The real property tax abatement would remain in place for 10 years, beginning in the year that the project receives a certificate of occupancy. The amount of the abatement is capped at $600,000 annually, for a total of $6 million. The legislation is subject to the inclusion of the fiscal impact in the budget and financial plan.

The parcels are owned by Parkside Residential, LLC. The development plan calls for two, 174-unit apartment buildings as part of the larger Parkside Planned Unit Development (PUD), which allows for a large, mixed-use development. The owner purchased Lot 808 in FY 2005 and Lot 811 in FY

2006, both as parts of a bundle of properties. Because the parcels were purchased in conjunction with other properties, the OCFO cannot determine the purchase price of these individual parcels. However, at the time of purchase, Lot 808 was assessed for $190,340 and Lot 811 was assessed for $246,070. The owner intends to either sell the parcels or enter into a joint venture with a residential developer. The owner is asking $9.5 million for the parcels. In the absence of an appraisal on the parcels and with very few comparables in the neighborhood, the $9.5 million value cannot be verified.

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the OCFO to undertake a financial analysis of all proposed tax abatement legislation. The owner provided the OCFO with their sources and uses and projected cash flows.

Based on the OCFO's analysis of the information provided, it is likely that the owner will need a partial real property tax abatement, if the District would like for the owner of the parcels to construct two market-rate residential buildings in the Parkside location. The owners of the parcels are attempting to create an entirely new housing product for the Parkside neighborhood. In the absence of the partial abatement, the owner would likely have insufficient cash flow to attract the equity necessary to finance the construction of the buildings. The developer proposes to finance the $68 million project with approximately $47 million in conventional debt and $21 million in equity. If the owner was required to pay annual real property taxes in the full amount owed, the cash flow from the property would be reduced, thereby reducing the return to the equity providers. With a fifty-percent property tax abatement, cash flow should be sufficient to attract the equity necessary to construct the project.

The value of a fifty-percent tax abatement, beginning when the buildings receive their Certificates of Occupancy, totals an estimated $3.6 million, rather than the $6 million authorized in the proposed bill.

FY 2015	$272,962
FY 2016	$337,391
FY 2017	$346,163
FY 2018	$355,163
FY 2019	$364,398
FY 2020	$373,872
FY 2021	$383,593
FY 2022	$393,566
FY 2023	$403,799
FY 2024	$414,297
TOTAL	$3,645,203

If a small gap still remains, the owners could lower their requested sales price of $9.5 million for the parcels. A reduced sales price would reduce the amount of equity required, and increase the return on the equity invested in the project. A full property tax exemption would likely over-subsidize the project, providing the developer and equity providers with above-market returns.

The tax abatement will likely not be necessary for future owners of the project. Once the units are rented and the building is stabilized, the risk decreases greatly. As a result, once the owner chooses to refinance or sell the property, the stabilized cash flow should be sufficient to pay operating costs and debt service and to provide a market rate return to equity investors. Therefore, we recommend that the tax abatement end at the earlier of ten years or when the owner refinances or sells the property. We further recommend that the tax abatement authorization expire if the project does not receive a Certificate of Occupancy by September 30, 2018.

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