

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



Jeffrey S. DeWitt
Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

TO: **The Honorable Muriel Bowser**
Mayor, District of Columbia

The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: **Jeffrey S. DeWitt**
Chief Financial Officer

DATE: **June 11, 2019**

SUBJECT: **"Capitol Hill Village Real Property Tax Abatement Amendment Act of 2019"**

REFERENCE: **Draft Amendment to the Budget Support Act as shared with the Office of Economic Development Finance on May 1, 2019**

Findings

The proposed amendment would provide a real property tax abatement to the property known for taxation purposes as Lot 869 in Square 1043, which is located at 1355 E Street, SE, so long as the property is leased and occupied by Capitol Hill Village ("CHV") for its nonprofit purposes. The subject property is included in a larger development project which is under construction. Pursuant to the terms of the Planned Unit Development ("PUD") for that development project¹, the property owner is required to provide CHV free office space in perpetuity. Based on CHV's existing endowment of \$672,733 and the rent savings of between \$36,000-\$40,000 per year that will be achieved at this future office location², the proposed abatement valued at approximately \$10,000 per year is not necessary for CHV to meet its fiscal needs.

Please refer to the separate Fiscal Impact Statement for the effect of the proposed legislation on the District's financial plan.

Background

CHV is a non-profit organization which provides aging in place services to over 800 seniors in the Capitol Hill neighborhood. These services include providing rides to medical appointments,

¹ See Z.C. Case No.15-33.

² CHV estimates the subject property will be ready for occupancy in October of 2019. The abatement would become effective on May 1, 2019.

household maintenance, and educational opportunities. CHV currently leases office space at 725 8th St, SE at a cost of approximately \$36,000-\$40,000 per year and is not liable for real property tax payments.

Under the PUD³ for the development of Square 1043, project developer Insight Development committed to renovate the single-family home at 1355 E Street, SE into a warm lit shell⁴ and lease it in perpetuity⁵ to CHV free of charge for use as its office. The terms of the lease obligate CHV to pay for any property taxes due on the property.

Current law provides an exemption for buildings owned by nonprofit organizations that are used for purposes of public charity having its principal impact on District residents. The property cannot qualify for this exemption because it is owned by E Street Owner LLC and does not meet the nonprofit ownership requirement. The proposed legislation would provide an exemption that is generally equivalent to the administrative exemption that would be available if CHV owned the property.

Tax Abatement Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011⁶ requires the analysis provided by the OCFO to contain the following information:

(A) Terms of the Abatement

The legislation would exempt 1355 E Street, SE from real property taxation so long as it meets the following conditions:

- 1) CHV must occupy the property, and
- 2) CHV’s occupancy must be used for their non-profit mission.

(B) Value of the Abatement

Based on the terms of the abatement, the estimated 30-year value of the abatement is \$561,408, as shown below.

Value of Abated Taxes⁷

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023- FY 2048	30 Year Total
Abated Real Property Tax	\$1,848	\$10,000	\$10,500	\$10,952	\$528,108	\$561,408

³ See Z.C. Case No. 15-33.

⁴ “Warm lit shell” is an industry term meaning a space which has a minimally finished interior. Typically, a warm lit shell has heating and cooling systems, electrical wiring, plumbing, restrooms, and interior walls.

⁵ The lease between Insight Development and CHV, provides an initial term of 8 years, with 5 2-year renewal options. At the end of all extensions the parties agree to negotiate in good faith to enter into a new lease under similar terms as the original lease. Thus, the lease is effectively a lease in perpetuity.

⁶ D.C. Code § 47-4701.

⁷ The estimated value is based on the current assessment of the property, plus the Developer’s cost of \$300,000 to renovate the building into a warm lit shell, plus CHV’s cost to finish the building of \$62,700 (excluding office equipment and moving costs which are not real property). That value is estimated to inflate at approximately 5% in 2021 and 4.3% thereafter.

(C) Purpose of the Abatement

Once the warm lit shell is complete, CHV estimates it will cost an additional \$115,600 to fit out the interior into functioning office space. According to CHV Executive Director Molly Singer, approximately half of the \$115,600 fit-out costs will be paid by a grant, therefore the net fit out cost to CHV is \$57,800. According to CHV, the purpose of the abatement is to reimburse CHV for their fit out costs.

(D) Summary of the Proposed Community Benefits

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

(E) Financial Analysis and Advisory Opinion

CHV provided audited financial statements for FY 2016-18. In each of the three years analyzed, CHV had an operating surplus when considering all sources of income. Those sources include regular contributions, grants, membership dues, and contributions to CHV’s unrestricted endowment.⁸ As shown in the table below, CHV is estimated to continue benefitting from surpluses at the new location.⁹

	2016	2017	2018	New Location
Total Revenues	\$574,363	\$950,468	\$1,112,916	\$879,249
Property Tax	-	-	-	10,000
Rent	36,897	40,695	40,732	-
Other Expenses	510,136	774,115	1,016,993	767,081
Total Expenses	\$547,033	\$814,810	\$1,057,725	\$777,081
Net Income (Loss)	\$27,330	\$135,658	\$55,191	\$102,168
Unrestricted Endowment (Year End Balance)	312,108	454,706	672,733	

As of 2018, CHV maintains an unrestricted endowment balance of \$672,733. This amount is sufficient to pay for the net fit out cost³ of \$57,800 at 1355 S Street, SE, and any operating losses which may occur. Therefore, the proposed abatement is not needed for CHV to meet its fiscal needs.

⁸ According to Note 3 of CHV’s most recent audited financial statement, “As of September 30, 2018 there were no restrictions on the endowment funds”. Ms. Singer clarified that the trust documents which govern the endowment do not allow trust contributions to be used for CHV operating expenses, and that amending the trust would require approval by the CHV Board of Directors and the endowment’s Board of Trustees.

⁹ The New Location scenario assumes (1) revenues and expenses are equal to the average of the prior three years, (2) CHV pays real property tax of approximately \$10,000, and (3) their rent costs are reduced to zero.



Attachment

Molly Singer
Executive Director
725 8th St SE
Washington DC 20003

Summary of Community Benefits of Tax Abatement at 1355 E St SE

Accessible Space

While the south eastern part of Ward 6 has tremendous development happening, there is (still) a dearth of accessible community space. The area is a distance from libraries and there are no spaces for casual socialization, grab a cup of coffee, or use the rest room. *Truly, among seniors availability of restrooms is critical to being out and about, exercising, etc.* A tax abatement will enable us to keep the space welcoming and comfortable (and coffee warm) for neighbors to visit, to host our weekly games groups, hold educational sessions and more

Expanded Services

Tax abatement will enable Capitol Hill Village to increase its services. Particularly, with the savings, we look forward to partnering with Kentucky Courts Public Housing which is close to 1355 E Street and would benefit from stronger programs for seniors and engagement with aging services. The estimated costs savings would enable us to underwrite services for eight seniors and provide six activities a year for Kentucky Courts.

Volunteers

Location and community space in the new neighborhood will enable us to recruit, train and deploy about 50 new volunteers (based on the profile of the neighborhood). 50 additional volunteers translates roughly into 1,000 services a year for seniors.

Looking Forward

Washington DC, the United States, indeed, the world, is experiencing the phenomenon of longevity. The challenge is how to make this a gift of long life and not a burden on society for individuals. Capitol Hill Village seniors' average age is 77. We are feeling the shift towards individuals needing more services (translates to more volunteers and more staff) and more staff-intensive services. This all has a financial costs that we are working to anticipate and meet. A tax abatement will serve to alleviate one costs that can be shifted to direct services.

We are working hard to mitigate the increased needs of seniors with prevention programs, more health and wellness activities that increase well being. At the same time, we are facing the need to re-design our staffing structure to increase personalized services which are costly. By comparison, Northwest Neighbors Village serves half as many seniors, whose average age is 84, and they have twice as many requests for volunteer drivers. We know that this is around the corner for us. This is our major challenges over the next five years. How can we sustain programs and social activities which are vital to wellbeing and expand more intensive services. This is the financial challenge that lies ahead for us, but we are planning for today.

More Services to More People

In 2018 31% of new clients of Capitol Hill Village were new DC residents and (by and large) new homeowners. These are empty nesters. Often these folks expressly chose to move to this area because of the social, wellness and aging services that Capitol Hill Village provides. This means they are new taxpayers and consumers. Repeatedly, we are told that individuals choose to live on Capitol Hill because of the social, educational, wellness and aging services that we supply.