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 Phil Mendelson** **Chairman, Council of the District of Columbia**
FROM:	**Jeff DeWitt** Jeffrey S DeWitt **Chief Financial Officer**
DATE:	**May 7, 2014**
SUBJECT:	**"Carver 2000 Senior Mansion Real Property Tax Abatement Amendment" (Subtitle VII.K of FY 2015 Budget Support Act)**
REFERENCE:	**Bill Number 20-750**

Findings

The proposed legislation removes the 16-year sunset provision (currently scheduled to expire in 2018) and makes permanent the tax exemption granted 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 through 2041 because of the narrow margins under which the project operates. To date, project's 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. Reinstating payments of real estate taxes in 2019 would put cash flow pressure on the project.

At this time we cannot verify that the tax exemptions proposed for the Phase II portion of the project[2] will be required once financing for the project becomes available and construction commences. If the property were to be developed using Low-Incoming Housing Tax Credits, it would likely qualify for an as-of right exemption under current law.[3]

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[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.
[3] See D.C. Code Section 47-1005.02.

Background

The site for which the exemptions are proposed previously housed the apartment complex known as George Washington Carver Apartments. The site 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. The District made additional grants and loans to the Tenants Association to fund pre-development costs, demolition and relocation costs and the existing buildings were demolished. 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. The rents are partially paid by the tenants and partially paid by the District of Columbia Housing Authority under a U.S. Department of Housing and Urban Development Housing Assistance Payment (HAP) contract.

Phase II of the project must include at least 28 additional affordable housing units. Phase II initially 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. In January 2012, Council approved a modification to the DHCD loans to provide the Tenants Association with an additional $1,180,000 for predevelopment costs. At that time, construction was anticipated to begin in April 2014. However, a change in the development team has resulted in additional delays. According to the new team, the design and cost for Phase II is still being finalized.

The District authorized an 8-year tax exemption for the property (both phases) beginning in 2003. In 2012, Council extended the duration of the exemption to 16-years.[4] The current legislation would make permanent the real property portion of the tax exemptions.

Financial Analysis

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

A separate fiscal impact statement has been prepared and included in the fiscal impact statement for the Budget Support Act.

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[4] See D.C. Code Section 47-4605.

Terms of the Exemption or Abatement

The legislation eliminates the sunset provision on the real property exemption, thereby making the exemption permanent.

Annual Proposed Value of the Exemption or Abatement

Current law exempts the property from taxes through 2018. The proposed bill would extend the exemption indefinitely. Over the next 27 years, the expected value of the proposed real property tax exemption for Phase I is estimated at approximately $4.0 million. Because the Phase II development plans are not sufficiently far along and no financial pro-forma was available, a cost estimate of the proposed indefinite abatement for Phase II cannot be provided.

Estimated Value of Property Tax Abatement for Carver 2000						
	FY 2015	FY 2016	FY 2017	FY 2018	Total FY 2019 – FY 2041	Total FY 2015 – FY 2041
Phase I[5]	$0	$0	$0	$0	$3,956,551	$3,956,551
Phase II[6]	$0	$0	$0	$0	No estimate	No estimate

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. Reinstatement 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[7] or DHCD loans. If the Council approved the proposed exemption, the project could potentially have sufficient cash flow to repay the deferred developer fee and begin to make payments on the DHCD loans in 2021. Without the proposed tax exemption, we estimate it would take an additional 8 years for the deferred developer fee to be fully repaid, and that the project could not begin to make payments on the DHCD loans until after that time.

Phase II – Based on EDF's conversations with the developer, the development plan is still preliminary and there are no financing commitments at this time. In the absence of a project pro-

[5] Annual liability based on 2015 proposed assessment of $11,862,000 and estimated annual growth.
[6] Without a project pro-forma reflecting the anticipated value of the completed project, EDF cannot estimate the exemption value.
[7] 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.

forma or financing (including sources of debt, equity and grants), EDF cannot advise on the sufficiency (or insufficiency) of project financing or operating income to pay real estate taxes.

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, EDF advises that a real property tax exemption is necessary through 2041 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 – At this time, 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 has only secured financing for predevelopment and demolition costs. For permanent financing, the project sponsor indicated 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 would provide the project with its equity. The final sources of the project financing will determine the exact level of affordability of the units to be developed.