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: Natwar M. Gandhi  
Chief Financial Officer

DATE: March 22, 2013

SUBJECT: “Historic Music Cultural Institutions Expansion Tax Abatement Act of 2013”

REFERENCE: Bill 20-70, As Introduced

Findings

Because no specific Historic Music Cultural Institution (Institution) is identified in the legislation, the Office of the Chief Financial Officer’s Office of Economic Development Finance cannot determine if the tax abatements included in the proposed legislation are necessary. It is conceivable that the proposed abatements could be a windfall to an entity that would have made an expansion or move in the absence of any abatements, but any determination would require information about the financial situation or new location of each eligible Institution. It is likely that if an abatement were necessary to support an Institution’s expansion or move, the total abatement provided through the legislation would be more than would be required to support the expansion.

Notwithstanding the findings presented in this analysis, the proposed legislation may have an effect on the District’s FY 2013 through FY 2016 budget and financial plan.

Background

The proposed legislation provides a ten-year real property tax abatement as well as deed recordation and transfer tax abatements to Institutions for newly leased or purchased property that supports an expansion to or relocation from the Institution’s current location, with a goal of “expanding public live music and cultural entertainment and employment opportunities” in the District.
“Historic Music Cultural Institution” is defined by the proposed legislation as:

- a for-profit or nonprofit corporation operating a commercial venue;
- in continuous commercial operation in the District for a minimum of 45 years; and
- in the five calendar years preceding the effective date of this act, having hosted a minimum of 100 live musical performances open to the public each year.

Further, an Institution shall include areas immediately adjacent to, or included within, the music venue and in the same building or buildings as the Institution which are:

- dedicated to food or beverage service or preparation, used exclusively by the Institution;
- supporting office spaces used exclusively by the Institution; and
- spaces occupied exclusively by affiliated nonprofit music-oriented cultural organizations.

Financial Analysis

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

Terms of the Exemption or Abatement

The exemption would apply to any Institution that purchases or leases new or expansion space within one year prior to or five years subsequent to the enactment of the legislation. The Institution would be exempt from deed recordation and transfer taxes, and the new space would be exempt from real property tax for ten years. In addition, any deed recordation, transfer, or real property taxes subject to this exemption already paid to the District by an Institution shall be reimbursed by the District.

The total abatements available to all such Institutions under this legislation is limited to $2 million.

Annual Proposed Value of the Exemption or Abatement

Without information on a specific Institution, EDF cannot estimate the value of the exemption or abatement. The total value for all such Institutions is capped at $2 million.

Because the value in the first year of any transaction will include deed recordation and transfer taxes, real property taxes, as well as reimbursement of previously paid exempt taxes (if any), the value in the first year is expected to be significantly greater than in the subsequent nine years.

For example, if an Institution sold its current site for $1 million and purchased a new $3 million expansion space, this would result in a first year abatement of $107,500, including a transfer tax abatement for the old site and a deed recordation tax abatement at the new site (but not including any potential rebate of taxes). Over the next nine years, total abatements would be approximately $58,000 per year. Total abatements for this hypothetical transaction would be approximately $627,000.

Summary of the Proposed Community Benefits
The legislation grants abatements to an Institution’s “Expanded Music Cultural Use,” which is defined as leased or purchased real property, “where the principal purpose of the lease or purchase is for relocating the Historic Music Cultural Institution into that expanded building or those buildings; and then the use of that real property to increase the Historic Music Cultural Institution’s ability to present live music performances in the District, to continue to present live music performances in the District, and to seek a goal of expanding public live music and cultural entertainment and employment opportunities in, and increasing government revenue for, the District.” (emphasis added)

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

An Institution utilizing the tax subsidy provided in this legislation would be a corporation that has been in operation for at least 45 years. Without specific information about any specific Institution, the analysis must assume that any such corporation is currently operating without a subsidy and pays property tax at its current location. The Institution is likely doing well enough to accommodate a growth in musical and associated food and beverage services, which would require additional space. Without information about the circumstances requiring a move or expansion, and information about the lease or construction costs in the new expansion space, it is possible that the proposed abatements will replace other sources of private financing available for the expansion. Therefore, it is not clear that the proposed abatements are needed if the Council seeks to support the relocation or expansion of Institutions in the District.

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

The financial needs and resources to support a move or expansion of a Historic Music Cultural Institution have not been presented to EDF. Therefore, EDF cannot estimate the amount of abatement needed for the project to be financed.

If some abatement were needed for an Institution to successfully make a move into a new or larger space, and the Institution did make the move, the abatement would either have been the right amount or more that would be required. If the abatement were not sufficient to fill an identified financing gap, the Institution would not be expected to make the move. However, it is reasonable to expect that the total amount of taxes abated will not precisely fill any financing shortfall. Therefore, an abatement claimed under the proposed legislation is likely to be more than that which would be required to enable the project to be financed.

By passing an as-of-right tax abatement, the Council would give up control of providing subsidies to Historic Music Cultural Institutions because they will not be able to evaluate whether any individual Institution requires the subsidy in order to expand operations.

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

None provided.