

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

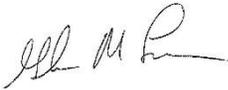


Glen Lee
Chief Financial Officer

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: **Glen Lee** 
 Chief Financial Officer

DATE: **June 15, 2023**

SUBJECT: **Tax Abatement Financial Analysis - "The Grace Covenant Church**
 Equitable Real Property Tax Relief Act of 2023"

REFERENCE: **Bill 25-0281**

Findings

"The Grace Covenant Church Equitable Real Property Tax Relief Act of 2023" (the "Bill") would provide forgiveness of real property tax liability for Square 4138, Lot 0800 (the "Property") for tax years (TY) 2020, 2021, and 2022. The real property tax liability consists of real property taxes, penalties, and interest accumulated during this period.

Based on an analysis of the Applicant's financial documents, the Office of the Chief Financial Officer ("OCFO") finds that the forgiveness of real property tax liability is financially necessary to preserve the organization's financial stability. Without the forgiveness, it would be a hardship for the Applicant to cover its ongoing operating expenses and debt payments while maintaining an adequate emergency reserve.

Background

The Applicant, Grace Covenant Church of DC Inc. ("Grace Church"), is seeking property tax forgiveness on its existing church property located at 3100 18th St. NE (Square 4138, Lot 0800) in the Brookland neighborhood of Ward 5. Grace Church is a non-denominational church established in 1999 that assembled and worshipped in rented facilities until it purchased its current church Property. The goal of the purchase was to establish a permanent place of worship for its congregation, as well as to eventually renovate and expand the space to better accommodate its congregation, allow

for community engagement, and create safe places for children. Grace Church has begun to raise money for the expansion project.

Grace Church acquired the Property by deed recorded in October 2019 from Capital Temple Church of God in Christ. The transfer of ownership terminated the real property tax exemption that had been granted to the prior owner. Grace Church, however, did not file an application for real property tax exemption, which is required to qualify for an exemption based on its ownership and use of the property, and so the property went into a taxable status. Grace Church mistakenly expected a tax exemption on the property to be automatically effective once the transaction was filed and recorded. After receiving a tax bill, Grace Church filed an Application for Exemption from D.C. Real Property Tax (Form FP-300) in December 2021. The application was approved by the Office of Tax and Revenue (“OTR”) and the exemption went into effect on January 1, 2022. Because the Property was not eligible for exemption until the application was filed, OTR could not grant an exemption for prior periods. As a result, there currently remains unpaid tax liability on the property from TY 2020 through a portion of TY 2022.

Financial Analysis

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

(A) Terms of the Abatement

The Bill provides the Property forgiveness of all real property taxes, interest, penalties, and fees incurred from October 1, 2019 through September 30, 2022. The Bill also provides that any payments made for this period are to be refunded, although according to tax records no payments were made for this period.

(B) Value of the Abatement

As shown in Table 1, the value of the proposed forgiveness as provided by the Bill is \$133,156.39. This represents the total amount of real property taxes, penalties, and estimated interest on the Property, and assumes it is budgeted as part of the fiscal year (FY) 2024 to FY2028 financial plan.

Table 1: Estimated Value of the Proposed Tax Abatement

Exemption of Real Property Tax, Penalties, and Interest	Prior to FY2023 (FY20, FY21, FY22)	Total Through FY2028	Total FY 2028-33	Total Value
Square 4138, Lot 0800	\$133,156.00	\$133,156.00	\$0	\$133,156.00

(C) Purpose of the Abatement

According to Grace Church, the forgiveness would enable the organization to fund ongoing church operating expenses while maintaining an adequate emergency reserve.

(D) Summary of the Proposed Community Benefits

The community benefits provided by the Applicant are provided in Attachment A.

(E) Financial Analysis and Advisory Opinion

The OCFO’s Office of Finance and Treasury (OFT) evaluated the non-audited financial statements for Grace Church over its past three fiscal years (FY 2020, 2021, 2022, each with a December 31st year end). The Applicant also provided the mortgage note on the Property and information on its repayment terms, an appraisal report on the Property, as well as a cost estimate, scope of work, and funds raised to date dedicated to the building expansion project.

Grace Church’s financial statements indicate operating revenue has declined over the past three years, as the lack of in-person services due to COVID-19 reduced the member contributions that predominantly make up its income. As a result, operating expenses exceeded revenues in FY 2022, requiring the Applicant to dip into its emergency reserve to cover costs. Grace Church’s current, unrestricted assets by the end of FY 2022 represented a reserve equal to two and a half months of its FY 2022 annual expenses. In contrast, churches typically maintain three to six months of emergency reserve to manage unanticipated financial distress, with smaller churches such as Grace Church needing a larger “cushion” as there are fewer contributors to help in a crisis.

The tax liability on the Property represents about half of Grace Church’s current unrestricted assets, and should Grace Church pay off the balance, their reserve would be reduced to less than a month and a half. Furthermore, as the majority of the church’s budget is dedicated to staff-related expenses, reducing operating expenses to cover costs might require staffing reductions. Although the Applicant has resumed in-person church services this year and hopes member contributions and revenue will increase in FY 2023, they are uncertain how significant the impact will be and to what extent it can replenish reserves.

Finally, while Grace Church does possess equity in the Property that could conceivably be extracted to cover the tax liability, it is unlikely to qualify for a commercial equity line of credit (CELOC) from lenders because its equity represents less than 30% of the Property’s appraised value – generally the minimum required for a CELOC. Furthermore, it would have difficulty covering debt repayments given its unstable net income over the past three years.

Conclusion

For these reasons, OCFO finds that tax forgiveness is financially necessary. Based on the information provided by the Applicant, it would be a financial hardship for the Applicant to cover ongoing organizational expenses and debts while maintaining an adequate emergency reserve without the tax forgiveness.

Attachment A

Summary of the Proposed Community Benefits

Summary of Proposed Community Benefits

Grace Covenant Church of DC, Inc. have had a long-standing history of providing services to the local Brookland community. The following is a list of community engagement and services which have been provided to government agencies, residents, businesses and others.

- a. Financial literacy classes – Grace Covenant Church of DC, Inc. conducts financial literacy classes for residents and others in the community. These courses are generally conducted for periods of 12 weeks and cover all areas of finance.
- b. Physical fitness activities for adults and children. These include local park activities for children and adults.
- c. Programs to foster community safety and crime awareness. These have included engagement with the Fifth District of the Metropolitan Police Department to discuss crime and safety. The church has also recognized police officers injured in the line of duty and have provided donations in the amount of at least \$10,000.00 to officers.
- d. Grace Covenant Church of DC, Inc. provides fatherhood classes on becoming a dad. These classes not only connect men with their children, but also with their fathers and prior male generations.
- e. Children community movie night. These involve programs where children are both entertained and educated.
- f. Opportunities for adult continuing education ranging from GED programs to career enhancing classes and job training. Grace Covenant Church of DC, Inc. has partnered with other exempt organizations such as So Others May Eat Inc. (SOME) for job readiness programs.
- g. Community food assistance and other assistance. During the Covid-19 pandemic and through present conditions, the church has maintained a vibrant food assistance program in providing pre-packaged bags to needy community individuals. Additionally, Grace Covenant Church of DC, Inc. continues to provide coats, books and school supplies for children and families in need.