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 3, 2016**
SUBJECT:	**"Jubilee Ontario Apartments Real Property Tax Abatement Amendment Act of 2016"**
REFERENCE:	**Subtitle (VII)(Q) of the Fiscal Year 2017 Budget Support Act of 2016**

Findings

The proposed legislation would provide a real property tax exemption for the non-residential portion of the property owned by Jubilee Ontario Apartments, LP, Square 2565, Lot 805, located at 2525 Ontario Road, NW (Property) and currently leased to Jubilee JumpStart, Inc., (JumpStart) a non-profit daycare center. The bill would grant the exemption for an indefinite period of time, so long as certain affordability and use requirements continue to be met.[1] The proposed bill retroactively applies the exemption to existing tax liabilities incurred in FY 2015 and FY 2016. The estimated value of the exemption is $226,000 through FY 2030.

If the Council would like to support the operation of this property, forgiveness of the deed recordation tax obligation, totaling $22,916 including interest and penalties, is necessary to reduce short term financial strain on building operation. Based on an analysis of financial projections for this property submitted by Jubilee Ontario Apartments, LP (the Limited Partnership), the building will generate sufficient revenue after expenses and debt service to pay its real property tax obligations. Therefore, if the building performs as anticipated, the annual real property tax exemption is not needed.

Under the general real property tax exemption law, real property must be owned by a nonprofit organization in order to qualify for exemption. In this case, the property is owned by a partnership,

[1] As conditions of the exemption, 1) the residential portion of the property must continue to be exempt from real property taxation pursuant to DC Official Code § 47-1005.2, and 2) the non-residential portion must be used by an entity that would be entitled to a real property tax exemption pursuant to DC Official Code § 47-1002(8) if it owned the non-residential portion it occupies.

which is a for-profit organization. Accordingly, the nonresidential portion of the property cannot qualify for an administrative exemption, regardless of its use. In this instance, the portion of the property occupied by JumpStart cannot receive an administrative exemption because it does not own the property it occupies. Property owned by a non-profit daycare center can qualify for exemption under D.C. Official Code § 47-1002(8) if the center primarily serves District residents and other applicable requirements are satisfied.

Please refer to the OCFO's separate Fiscal Impact Statement for the effect of the proposed legislation on the District's FY 2017 through FY 2020 budget and financial plan.

Background

The proposed legislation would forgive existing real property and deed recordation tax obligations and provide a prospective real property tax exemption on the portion of the Property that is currently subject to real property taxation. The Office of Tax and Revenue (OTR) denied an administrative exemption for this portion of the Property because the Property is owned by the Limited Partnership, a for-profit organization. Jubilee Housing, Inc. (Jubilee) serves as the non-profit managing general partner of the Property[2]. Jubilee purchased the Property in 1978 and continuously operated it in accordance with its mission, providing affordable rental housing and, since 2009, dedicating space for the operation of a child development center, JumpStart.

In 2015, Jubilee transferred ownership of the Property to the Limited Partnership, an entity set up solely to utilize Low Income Housing Tax Credits (LIHTC), as part of a refinancing and renovation of the Property. Prior to the transfer, under Jubilee's ownership, the entire Property was exempt from taxation. According to Jubilee, the use of the facility has remained the same after the transfer of ownership: there are 27 units of affordable housing on three levels of the building and 4,200 square feet of ground floor space leased to JumpStart. JumpStart is a non-profit entity that offers early childhood education for 50 children and operates independently of Jubilee and the Limited Partnership. Under its lease, JumpStart has the right to occupy its portion of the Property until 2019.[3] Any tax liability is the responsibility of the landlord.

The Limited Partnership applied for a tax relief for the Property under the Nonprofit Affordable Housing Developer Tax Relief Act of 2012.[4] It subsequently received a property tax exemption for the portion of the Property dedicated to affordable housing, but not for the portion dedicated to the child development center. As a result of OTR's denial of the administrative exemption application, the Limited Partnership became liable for the deed recordation tax and real property tax owed on the portion of the Property leased to JumpStart, plus interest and penalties.

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.

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[2] Through its subsidiary Jubilee Ontario, LLC.

[3] After this initial term, the lease provides for two five-year automatic renewals unless either the landlord or the tenant opt not to renew.

[4] DC Official Code § 47-1005.02

Terms of the Exemption or Abatement

The proposed legislation states that the nonresidential portion of the Property shall be exempt from real property taxation for as long as 1) the residential portion of the Property continues to be exempt from real property taxation pursuant to DC Official Code § 47-1005.02, and 2) the non-residential portion is used by an entity that would be entitled to a real property tax exemption under DC Official Code § 47-1002(8)[5] if it owned the property. The deed recordation and real property tax forgiveness is retroactive to March 27, 2015.[6]

Annual Proposed Value of the Exemption or Abatement

The OCFO estimates the proposed value of the exemptions for the next 15 years to be:

Projected Value of Tax Exemptions for Jubilee Ontario Apartments. LP						
	FY 2016[7]	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020-2030**	**TOTAL FY 2016 – FY 2030**
Real Property Tax Exemption[8]	$9,984	$11,312	$11,652	$12,001	$158,319	$203,267
Deed Recordation Tax Exemption	$22,916					$22,916
TOTAL	$32,900	$11,312	$11,652	$12,001	$158,319	$226,184

The estimated cost of the real property exemption through 2030 is approximately $226,000. The current ownership structure will need to remain in place until at least 2030, at which time the 15-year compliance period for the LIHTC ends.

Summary of the Proposed Community Benefits

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

Financial Analysis for Existing Buildings

Review and Analysis of the Financial Condition of the Recipient of the Proposed Exemption and Advisory Opinion Stating Whether or Not It Is Likely that the Recipient Could Be Reasonably Expected to Meet Its Fiscal Needs without the Proposed Exemption or Abatement

For this analysis, Jubilee provided an operating pro forma prepared for the Property and used to secure debt financing. The pro forma estimates sufficient net revenue, after building expenses and

[5] This provision exempts from real property tax "buildings belonging to and operated by institutions which are not organized or operated for private gain, which are used for purposes of public charity principally in the District of Columbia."
[6] This is the date the deed conveying the Property to the Limited Partnership was recorded in the District's land records.
[7] Includes taxes owed in FY 2015 after transfer of property to the Limited Partnership.
[8] FY 2017 and subsequent years reflect increased assessed value in FY 2017.

required debt service, to support annual estimated property tax expenses, even with the Property's below market-rate residential and commercial rent structure. The Property is expected to have sufficient resources to pay the annual property tax expense associated with the non-residential portion of the building.[9]

However, the deed recordation tax puts a financial strain on the operation of the Property in the short term. The pro forma indicates sufficient net operating income to pay required debt service and real property tax, but not to pay the one-time recordation tax. Although the Property was continuously occupied during renovation, the Property operated at a net loss in calendar year 2015, and the current operating budget projects a net loss for 2016. However, short-term operating shortfalls are not expected to constrain the overall positive financial performance of the Property. Jubilee anticipates the Property will finish renovations and reach stabilized operation by the end of the calendar year.[10]

[9] Jubilee notes that the Project's lenders, DC Housing Finance Agency and United Bank, underwrote the debt with a debt service coverage ratio of 1.15. The addition of taxes as an expense will leave sufficient revenue to pay the debt service, but the Project's net operating income is not projected reach the required debt coverage ratio until 2021.

[10] Based on the Limited Partnership's audited financial statement for 2015, a 2016 operating budget for the Property, and conversations with a representative of Jubilee.

Summary of Proposed Community Benefits as Submitted by Jubilee Housing, Inc.

Jubilee Housing leases the ground floor to Jubilee JumpStart at below market rents (approximately 50% of market) in order to better serve our joint mission of providing quality family and child development services to low income families who live in our buildings and in our neighborhood.

Some statistics from Jubilee JumpStart:

- 50 children enrolled
- 68% are 6 weeks-3 years old; 32% are 3-5 years old
- 70% of families qualify for child care subsidy; 30% pay tuition privately
- Subsidy income eligibility ranges from $0 to 250% of Federal Poverty Guidelines (dependent on family size)