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

Natwar M. Gandhi
Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS (REVISED)

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:	**June 21, 2013**
SUBJECT:	**"Spring Place Real Property Limited Tax Abatement Assistance Act of 2013"**
REFERENCE:	**Bill 20-238**

Findings

If the District would like the owner[1] of Metro Village (the project[2]) to construct a mixed-income residential building adjacent to the Takoma Metro station, the tax abatements proposed by Bill 20-238 are necessary.[3]

The Office of Economic Development Finance (EDF) finds that absent the proposed tax abatements, the $32.26 million proposed housing project is unlikely to be developed. Projected net income from the apartments, 80 percent of which are designated as affordable, would be insufficient for the lender and equity provider to participate in the project at levels required to fund project costs. The estimated cost of the proposed tax abatement over 42 years is $9.1 million.

Please refer to the Office of Revenue Analysis' separate Fiscal Impact Statement for the effect of the proposed legislation on the District's FY 2013 through FY 2016 budget and financial plan.

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[1] Takoma Spring Place LP
[2] The project will be located on Square 3186, Lots 1 and 804, and Square 3185, Lots 52 and 822. Note that the introduced legislation states that Square 3186, Lot 804 is Square 3186, Lot 803. The developers are requesting that the correct lot number be reflected in the legislation.
[3] This finding is based on information submitted to the Office of the Chief Financial Officer's (OCFO) Office of Economic Development Finance (EDF) by Affordable Housing Developers (AHD) and Takoma Venture LLC (the developers).

Background

Metro Village is planned to be a mixed-income rental complex in the Takoma neighborhood with 150 units, 120 of which will be affordable for residents making 60 percent or less than the Area Median Income (AMI).

Under District law[4], affordable housing properties utilizing Low Income Housing Tax Credits (LIHTCs) and that are owned or controlled by a nonprofit organization are eligible to receive a real property tax exemption upon certification by the Department of Housing and Community Development. However, because the developers of this project, Affordable Housing Developers (AHD) and Takoma Venture LLC, are for-profit entities, they do not qualify for this exemption.

The developers have received capital commitments indicating that their financing will include a senior loan insured by the Federal Housing Administration (FHA), as well as equity raised through the sale of federal LIHTCs. Additionally, the developers will defer approximately 43 percent of the developer fee.

The proposed legislation would abate the first $220,000 of annual real property taxes, as well as exempt the property from deed and recordation taxes.

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 below.

<u>Terms of the Exemption of Abatement</u>

The legislation states that the property owned by Takoma Spring Place LP shall receive a real property tax abatement of the lesser of $220,000 or the amount of real property taxes owed based upon the assessed property value as well as a deed recordation and transfer tax exemption.

The abatement will take effect when construction begins. Assuming the project contains at least 80 percent affordable units (for residents making 60 percent or less than the AMI), the abatement will be in place until the later of 40 years after the project has received its certificate of occupancy or until the term of its senior debt has expired, the term of which may be amended.

[4] D.C. Official Code §47-1005.02.

Annual Proposed Value of the Exemption or Abatement

Projected Value of Tax Abatement for Metro Village								
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2014 - FY 2017**	**FY 2018 - FY 2054**	**TOTAL FY 2013 - FY 2054**
Real Property Tax Abatement	$3,817	$22,959	$210,126	$194,926	$198,163	$626,174	$8,079,270	$8,705,444
Deed Recordation and Transfer Tax Abatement	$402,277	$0	$0	$0	$0	$0	$0	$402,277
TOTAL	$406,094	$22,959	$210,126	$194,926	$198,163	$626,174	$8,079,270	$9,107,721

The estimated value of the real property and recordation tax abatement from FY 2013 through FY 2054 is approximately $9.1 million.

Summary of the Proposed Community Benefits

A summary of the proposed community benefits, as provided by the developers is attached to this analysis as Attachment A.

Financial Analysis

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*

The developers have provided EDF with their debt and equity term sheets, projected cash flows, and other pertinent documents. The project's lenders sized their anticipated loan amount assuming that the project will receive a tax abatement.

The developers anticipate financing the project using the following sources:

SOURCES	
First Mortgage	25,049,000
LIHTC Equity	5,970,000
Deferred Developer Fee	1,240,486
Total Financing Sources	32,259,486
USES	
Construction Costs	19,231,000
Acquisition Costs	3,276,000
Soft Costs	2,213,655
Financing Costs	2,899,482
Developer Fee	2,915,000
Reserves	1,724,349
Total Financing Uses	32,259,486

EDF has reviewed the projected cash flows and finds that including payment of regular annual real property taxes would not leave the project with the necessary net income to meet the lender's debt service coverage ratio requirements for the targeted $25.05 million loan. Further, without sufficient projected income to support the mortgage, LIHTC equity providers would likely be unwilling to put their capital at risk. Finally, unless the developers deferred an additional $402,000 of their developer fee, the project's current funding sources are insufficient to pay deed recordation and transfer taxes. The developers will already be deferring 43% of their fee and it is not market standard for privately sponsored rental developments to defer more than 50% of developer fee.

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

The project's high percentage of units restricted to affordable rent levels will limit its cash flow, and the imposition of real property, deed recordation and transfer taxes will constrain it even further. As such, EDF finds that the proposed tax abatements are necessary.

The proposed value of the abatement over the 42-year term of its mortgage, through FY 2052, is $9.1 million. However, the actual value could be lower or higher if the term of the debt is amended.

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*

The developers' financing includes an FHA insured mortgage and investor equity of $5.97M, which will be generated through the sale of LIHTCs. The developers will also defer 43 percent of their developer fee. In addition, the developers have applied to the District's Department of Housing and Community Development for a Housing Production Trust Fund (HPTF) subordinate cash flow loan. The developers are requesting this loan only in the event that mortgage interest rates rise to a level greater than assumed in their loan application.[5]

[5] Under such a scenario, the lender would reduce the size of its loan commitment due to reduced cash flow and the HPTF loan of up to $1.05 million would make up the gap.

Attachment A

Community Benefits
Supplied by Affordable Housing Developers and Takoma Venture LLC

- Redevelopment of a former light industrial area consistent with the intent of the master and neighborhood plan
- Development of 120 units that will be available to households earning up to 60% of AMI.
- The property will provide a choice of transit subsidies each year to each household:
    - Annual bike-share membership
    - Annual car-sharing membership
    - Metro farecard pre-loaded with $65
- The development will complete significant off-site improvements to the sidewalk system connecting the property to Blair Road.
- The development will complete a segment of the Metropolitan Branch Trail extending from and including the length of the property to Chestnut Street.
- The development will complete the design of a section of the Metropolitan Branch Trail, to be constructed by the District, that will connect Spring Place to Cedar Street and the Takoma Metro Station.
- The development will complete a major waterline extension that will enhance service levels and safety in the Takoma downtown. This extension shall complete a loop system that allows for maintaining safe water pressures in the event of a service disruption in another part of this loop.
- The project, when completed, will provide after-school activities to residents in conjunction with Promised Land Baptist Church.