

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

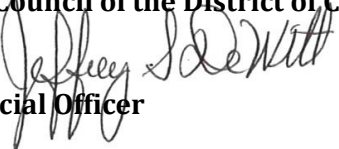


Jeff DeWitt
Chief Financial Officer

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** 
 Chief Financial Officer

DATE: **May 8, 2014**

SUBJECT: **“St. Matthew’s Evangelical Lutheran Church Community Garden**
 Equitable Real Property Tax Relief Act of 2013”

REFERENCE: **Bill Number: 20-539**

Findings

The proposed bill, Bill 20-539, St. Matthews Evangelical Lutheran Church Community Garden Equitable Real Property Tax Relief Act of 2013 (Act) would enable the property owner, St. Matthew’s Evangelical Lutheran Church Senior Trustee (St. Matthew’s Church) to continue holding land that it plans to develop in the future for both religious and residential use without paying real property taxes and associated penalties, interest, fees, and other charges. Under the bill, all such taxes and penalties incurred since 2009 would be forgiven and the exemption would apply through tax year 2015, unless project construction begins sooner. The Office of Economic Development Finance (EDF) has determined that the proposed exemption is not necessary for the property to be developed.

The total estimated value of the proposed tax exemption is approximately \$240,000. Please refer to the separate Fiscal Impact Statement for the proposed bill’s effect on the budget and financial plan.

Background

The proposed legislation would provide a temporary and retroactive property tax exemption, including a refund of amounts paid, for property owned by St. Matthew’s Church located at 222 M Street, SW,¹ so long as the property is used as a community garden.

¹ Square 546, Lot 301

Property owned by religious, not-for-profit organizations and used for religious purposes is generally eligible for exemption from real property, deed recordation and transfer taxes under existing District law. To the extent that the property identified in the Act is currently not being used for religious purposes, or being prepared for such use, it would not be exempt from taxation as a matter of right under District law.

St. Matthew’s Church acquired the property in 1962 and had a church located on the property beginning in 1963. In 2008, the church was demolished in order to redevelop the property at some point in the future for a mixture of residential and religious uses. In the interim period, the congregation has been worshipping elsewhere in the District. The land has been vacant since the demolition, and has been used by the Church for an annual Christmas tree sale, and has been made available to community members who register with the church for seasonal garden use. Land used for community garden purposes is generally not entitled to as-of-right exemption.

In 2012, the Planned Unit Development (PUD) applicant, TC/CSG St. Matthew’s LLC obtained a PUD from the District to redevelop the property as a mixed use development. The PUD states that TC/CSG St. Matthew’s LLC is a joint venture between Trammell Crow Company and CSG Urban Partners. The new development will consist of a community center and replacement church, a one-third acre courtyard, approximately 217 apartment units (21 of which will be affordable units at 80% of Area Median Income) and 151 below-grade parking spaces. If TC/CSG St. Matthew’s LLC is able to obtain project financing, and thereafter complete design and documentation, it expects to break ground in the first or second quarter for 2015. The developer states that it has tried, unsuccessfully, to obtain such project financing for the past year.

The District Office of Tax and Revenue (OTR) determined that continuation of a full exemption for the property was not warranted due to the planned residential redevelopment of the site. The PUD for the property showed that approximately 95% of the development would consist of residential uses, and only approximately 5% of the development would be dedicated to religious use by St. Matthew’s Church. As a result, OTR placed approximately 95% of the property in a taxable status effective August 1, 2012, and retained approximately 5% of the property in an exempt status.²

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by EDF to contain certain information. The required information is included below. A separate fiscal impact statement was prepared by the Office of Revenue Analysis on the proposed legislation.

² The church has filed a petition in Superior Court challenging OTR’s determination, and the case is currently pending.

Terms of the Exemption or Abatement

The proposed legislation would forgive real property taxes, penalties, interest, fees, and other charges assessed against the property owned by St. Matthew’s Church from the August 1, 2012 date it became taxable through September 30, 2015, provided the proposed project had not yet begun construction by then and the property was still being used as a community garden. The legislation also provides for a refund of real property taxes, penalties, interest and fees paid during this period. Additionally, a \$250 fee imposed against the property in 2009 would also be forgiven.

1. Annual Proposed Value of the Exemption or Abatement

EDF estimates the proposed value of the exemptions to be:

Projected Value of the Real Property Tax Exemptions FY 2014 - FY 2015			
	FY 2014	FY 2015	FY 2014 - FY 2015
Forgiveness of prior year taxes, penalties and interest	\$92,624	\$0	\$92,624
Real property tax exemption for current year	\$62,790	\$84,696	\$147,486
Total	\$155,414	\$84,696	\$240,110

2. Summary of the Proposed Community Benefits

A summary of the proposed community benefits as submitted by St. Matthew’s Church is attached to this analysis as Appendix A.

3. Financial Analysis for Development Projects

A. 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

Trammell Crow Company and CSG Urban Partners have been identified as St. Matthew’s Church’s development partners. The partners hope to be able to begin construction of the project in the first or second quarter of 2015. The proposed abatement would end at that time, the land would become taxable, and the construction financing would be expected to be sized sufficiently to include payment of real property taxes.

Prior to obtaining financing for the construction of the development, a developer or property owner would have to identify other sources to pay annual real property taxes. St. Matthew’s Church could pursue one of three options. First, it could take out a larger mortgage on its property and use the proceeds to pay the real property taxes and other predevelopment costs. Given that the market value of the property is estimated at \$7.7 million per OTR’s 2014 assessment, the mortgage proceeds should be more than sufficient to refinance an existing \$750,000 loan secured by the property and pay the \$240,110 estimated cost of property taxes incurred to date and to be charged through 2015.

Second, St. Matthew’s Church could tap into its reserves, which at the end of 2012 were just slightly above the estimated real property tax liability for 2012-2015. Although this could temporarily impact the church’s operations, the church can expect to benefit financially from the proposed development project and would then be able to replenish its reserves. Third, St. Matthew’s Church could potentially negotiate with the development partnership to pay the real property tax liability prior to the start of construction. It is likely that the value of the land will be shared between the church and the development partners. Neither documentation of the financial arrangement between the partners, nor financial statements of the PUD applicant, TC/CSG St. Matthew’s LLC, were submitted to the OCFO for review, however.

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

EDF estimates that no exemption is necessary to enable the project to be financed.

C. 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

St. Matthew’s Church has a development team in place, has received rezoning approval, and has the intention to sell the portion of the property that will be developed as a privately owned apartment complex. It appears that the proposed exemption is not necessary because the church could find interim financing based on the current value of the land and its expected value after redevelopment. The church could apply for a bank loan secured by a mortgage on the land, which could be sized to include the 2012 through 2015 real property tax payments in addition to other predevelopment costs. St. Matthew’s Church is already in the process of securing a mortgage for predevelopment costs.

Other Considerations

The Council and Mayor may want to consider the precedent set by the proposed legislation. There are a number of religious or other not-for-profit organizations in the District that own property that is vacant and/or awaiting development. Real property tax exemptions have generally been conditioned on use for exempt purposes, as well as ownership by a nonprofit organization. Property owned by a nonprofit organization that is not used for exempt purposes is generally taxed like any other property held for private use or gain. Additionally, if land slated for commercial development could be retained in a tax-exempt status as long as it is owned by a church or other not-for-profit organization, commercial developers would realize a financial benefit by delaying the ownership transfer, thereby reducing their tax costs during the pre-construction phase of a project. The Council and the Mayor may not want to subsidize these organizations through tax exemptions while they assemble and hold properties.

APPENDIX A

Summary of Community Benefits
as submitted by
St. Matthew’s Evangelical Lutheran Church

The Community Garden and Annual Christmas Tree Sale continue to offer the community at large a tremendous benefit. Once the property is redeveloped, the Community will benefit from the creation of a new 16,000 square foot community center and Church, a 1/3 acre courtyard, approximately 217 units of new housing, including 21 affordable units at 80% of the Area Median Income (AMI), underground loading facilities, 10 new trees in public space, fencing for the school vegetable garden at Amidon-Bowen Elementary, funding for the Southwest’s Community Benefits Coordinating Council, dedicated car sharing spaces and electric car charging spaces.