

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



Glen M. 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 M. Lee**
Chief Financial Officer

A handwritten signature in black ink, appearing to read "Glen M. Lee".

DATE: **May 9, 2024**

SUBJECT: **Tax Abatement Financial Analysis- "Studio Theatre Housing Property
Tax Exemption Amendment Act of 2023"**

REFERENCE: **Bill 25-635**

Findings

The Studio Theatre, Inc. (Studio Theatre) is seeking an amendment to the Studio Theatre Housing Property Tax Exemption and Equitable Tax Relief Act of 2009, codified at D.C. Official Code sec. 47-1082 (the Act). Bill 25-635 (the Bill) would remove from the Act the property located at 1630 Corcoran Street, NW and replace it with 1437 Clifton Street, NW. Based on the financial information provided, the Office of the Chief Financial Officer (OCFO) finds that the proposed exemption for 1437 Clifton Street, NW is not financially necessary in order for Studio Theatre to meet its fiscal needs, given the scale of Studio Theatre's financial operations and the property's annual tax liability.

Background

Studio Theatre is a non-profit performing arts organization incorporated in the District of Columbia in 1978. The property it owns at 1437 Clifton Street, NW (1437 Clifton) is in Ward 1 and is known for tax and assessment purposes as Lot 58 in Square 2664. Studio Theatre purchased 1437 Clifton in 2012, after enactment of the Act, which exempted specified residential properties owned by Studio Theatre. In 2021 Studio Theatre sold one of the properties exempted in the Act, 1630 Corcoran Street, NW, in Ward 2.

According to Studio Theatre, 1437 Clifton, like properties currently exempted by the Act, provides housing for its fellowship program participants. Participants in the fellowship program are early career arts professionals employed by Studio Theatre during an 11-month training program. Participants receive housing free of charge as part of the program.

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.

(A) Terms of the Abatement or Exemption

The Bill would exempt 1437 Clifton from real property tax beginning with the effective date of the proposed law, for so long as it is (i) owned by Studio Theatre, (ii) used for housing in support of its nonprofit activities, and (iii) not used for any commercial purposes.

(B) Value of the Abatement or Exemption

As shown in Table 1, the Bill’s proposed tax relief for 1437 Clifton is valued at approximately \$53,312 through the financial plan period and approximately \$467,208 in the 25 years following the financial plan period. The exemption would continue as long as the conditions specified in the Act are satisfied.

Table 1: Estimated Value of the Proposed Tax Abatement

Exemption	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total FY24-28	Total FY29-53	Total
Real Property Tax	\$5,657	\$11,408	\$11,727	\$12,079	\$12,441	\$53,312	\$467,208	\$520,520

The Exemptions and Abatements Information Requirements Act of 2011 requires certain information from the Applicant pertaining to political contributions and contracts held by the Applicant if the total estimated value of the abatement or exemption is \$250,000 or more. According to Studio Theatre, it has made no political contributions from the time of the Bill’s introduction, nor does it hold any contracts with the District.

(C) Purpose of the Abatement or Exemption

The purpose of the exemption is to amend the Act to replace one property no longer owned by Studio Theatre (but specified in the Act) with another property, 1437 Clifton, purchased by Studio Theatre subsequent to the Act’s enactment.

(D) Summary of the Proposed Community Benefits

Community benefits as described by Studio Theatre are provided in Attachment A.

(E) Financial Analysis and Advisory Opinion

The OCFO’s Office of Finance and Treasury (OFT) evaluated the audited financial statements provided by Studio Theatre for its fiscal years (ending August 31) 2021 through 2023.

The financial statements show an organization that has, overall, maintained a strong financial position since 2020. Despite a decline in net assets in 2022 and 2023, Studio Theatre’s net assets are

at roughly the same level as in 2020 and unrestricted net assets¹ have increased during that period. Excluding depreciation expense, Studio Theatre has had positive net income for the last three years. Including depreciation (a non-cash expense), Studio Theatre operated at a loss in 2022 and 2023. Studio Theatre received the proceeds of \$9.5 million in revenue bonds through the District’s Revenue Bond Program on April 1, 2021. Lender requirements, including a security interest in Studio Theatre’s assets as well as debt service coverage ratio and liquidity covenants, effectively restrict the use of unrestricted net assets to pay expenses. Financial statements indicate that Studio Theatre is currently in compliance with these lender cash requirements.

While a reduction in any expenses unrelated to revenue-generating activity would help Studio Theatre maintain its net unrestricted assets, the impact of the 1437 Clifton real property tax payment on its financial operation is minimal. The 2025 real property tax liability for 1437 Clifton represents a fraction of a percent of past fiscal year expenses or unrestricted revenues, less than one percent of current unrestricted assets, and approximately 1.4 percent of cash on hand at the end of the most recent fiscal year. Studio Theatre purchased 1437 Clifton in 2012 and has been paying real property taxes on the property since it was purchased.

Conclusion

For the reasons set forth herein, OCFO finds that a tax exemption is not financially necessary. Based on the scale of the organization’s financial operations, and the amount of the annual real property tax liability for 1437 Clifton, there are sufficient resources to pay this tax liability.

¹ The organization’s net assets without donor restrictions.

Attachment A
Statement of Community Benefits
(Provided by the Applicant)

The property at 1437 Clifton Street, NW is used to provide housing for our Fellows in Residence Program participants, who are early career arts professionals employed at Studio during an 11-month training program. The housing is provided free to Fellows as part of their compensation, allowing these entry-level artists and arts administrators to be able to afford to live within the city. The property helps support eleven to fourteen temporary full-time jobs annually. Many of the past participants of the program have gone on to be employed at theatres around the city including here at Studio Theatre, Woolly Mammoth Theatre, Arena Stage, Shakespeare Theatre Company, and others.