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

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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** Jeff DeWitt **Chief Financial Officer**
DATE:	**January 10, 2014**
SUBJECT:	**"Meridian International Center Real Property Tax Abatement Act of 2013"**
REFERENCE:	**Bill Number 20-485**

Findings

The property tax exemptions proposed by Bill 20-485 are not necessary in order for the Meridian International Center (Meridian) to remain in operation.

Background

The proposed legislation would generally exempt the property of Meridian International Center, located at Lots 806, 808, and 809 in Square 2568 and Lots 2369-2401, 2413-2417, 2423, 2441, and 2442 in Square 2567 from all taxation. This property consists of buildings known as the Meridian House and the White-Meyer House, along with the grounds and certain parking spaces. Meridian is a corporation organized under the District of Columbia Nonprofit Corporation Act on February 16, 1960, and is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. As a result, it receives the exemptions from District income, personal property and sales tax customarily accorded such organizations. The proposed legislation would therefore only impact the real property tax assessable against Meridian's real property.

The Meridian House, as well as a surface parking lot in Square 2567, were exempted from District real property tax in 1962, and the White-Meyer House and an associated parking lot were exempted from District real property tax in 1988. In March 2004, Meridian conveyed the surface parking lot in Square 2567 to Crescent Place, LLC for the development of a residential project. The property became taxable when it was sold. Once the development was complete, Crescent Place, LLC conveyed 41 parking spaces back to Meridian in February 2006. Meridian submitted an Application for Exemption from Real Property Taxes for the parking spaces in Square 2567, but the Office of Tax and Revenue (OTR) denied the application.[1]

In general, District real property is entitled to a tax exemption only if it fits within specified categories set forth in the exemption law. For instance, property may qualify for exemption if it is used for purposes of public charity principally in the District. Case law has established that the public charity must have its principal impact on the public within the District in order for property to qualify under this provision. Additionally, property of a school, college or university embracing the generally recognized relationship of teacher and student may qualify if the institution's primary focus is the education of the public or a reasonable cross section thereof.[2] In general, Meridian's activities primarily focus on international affairs and strengthening international understanding through the exchange of people, ideas and culture between the United States and foreign countries. Based on a review of Meridian's activities, OTR determined that Meridian did not meet the requirements for exemption as a public charity or school. As a result, OTR partially revoked Meridian's property tax exemption on the remainder of Meridian's property, effective October 1, 2012. However, OTR has permitted exemption of the portion of the White-Meyer House that houses Meridian's Cafritz art gallery, which comprises approximately one third of that property.

Meridian has appealed both the amount of its real property tax assessment and the revocation of its exempt status. OTR denied Meridian's appeal of the assessed amount. The appeal of the revocation is currently before the D.C. Superior Court, and OTR's position is being defended by the Office of the Attorney General.

The proposed legislation would also forgive and order the refund of any payments made by Meridian on account of real property taxes, penalties, fees, interest, and other related charges.

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 (as amended) requires the analysis provided by the Office of the Economic Development Finance (EDF) to contain certain information. The required information is included below.

A separate fiscal impact statement will be prepared on the proposed legislation.

Terms of the Exemption or Abatement

The legislation states that Meridian shall be exempt from taxation so long as it is used in carrying on the purposes and activities of Meridian International Center, and to the extent that it is used for any

[1] The application was denied because the Lots were not titled in Meridian's correct legal name and OTR retained the Lots in a taxable status. Meridian subsequently corrected its deed, and requested reconsideration of the denial, which caused OTR to review Meridian's entitlement to real property tax exemption under the law as it had developed since Meridian's exemptions were originally granted.

[2] See D.C. Official Code §§ 47-1002(8) and 47-1002(10).

commercial purposes, the rent or other income generated shall be used for the maintenance and preservation of Meridian's historic buildings.[3]

1. Annual Proposed Value of the Exemption or Abatement

If the proposed legislation becomes law, Meridian would be refunded approximately $66,000 for taxes paid and $33,000 for penalties and interest paid. Additionally, approximately $516,000 in real property taxes currently due and $117,000 in penalties and interest currently due would be forgiven. The EDF estimates the proposed value of the exemption to be approximately $538,000 annually (increasing each year) for a total of $26.8 million over a 30 year period (see chart below). Although the total was calculated over a 30-year period, the exemption would remain in place indefinitely.

Real Property Tax Liability - Meridian International Center	
Retroactive taxes from FY06-FY11 to be refunded	$66,610
Retroactive penalties and interest from FY06-FY11 to be refunded	$32,875
Total real property taxes due for FY12-FY13	$516,507
Total penalties and interest due for FY1-FY13	$116,849
Total Liability Pre FY14	**$732,841**
Total Future Real Property Taxes FY14-FY43	**$26,783,274**

2. Summary of the Proposed Community Benefits

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

3. Financial Analysis for Existing Buildings

Review and Analysis of the Financial Condition of the Recipient of the Proposed Exemption and Whether Recipient Could Be Reasonably Expected to Meet Its Fiscal Needs without the Proposed Exemption

[3] Under the rules generally applicable to administrative exemptions, property owned by one organization and used by another can qualify for exemption only if both the owner and user are within the classes exempted under the real property tax exemption law. This provision of the bill would accordingly afford an exemption to Meridian that it would not be able to receive under the general rules. Furthermore, the bill would permit commercial use of Meridian's property provided that the income derived from such use is dedicated to maintaining Meridian's property. This also provides a more generous exemption than is allowed under the generally applicable rules, which provide that exemption is not allowable to the extent that property is used for commercial purposes.

Meridian provided EDF with its financial statements available in its 2008 through 2012 annual reports, as well as its approved operating statement for FY12 and FY13. Based on the exemptions granted in 1962 and 1988, Meridian never had to budget for real property taxes. EDF estimates that Meridian's real property tax liability would be about 5% of its total expenses.[4] Based on EDF's analysis of the information provided, the payment of real property taxes, although a hardship, is unlikely to cause Meridian to cease operations.

Meridian is a not-for-profit organization, and it is dependent upon contracts and grants for the vast majority of its revenue. It has experienced an operating deficit in 5 of the last 6 years. However, there is no large mortgage or debt on the property, meaning that most expense items are related to conducting its programming. In order to make its real property tax payments, Meridian would likely need to cut program activities.

Alternatively, Meridian could dip into its reserve to make the payments. However, Meridian House and White-Meyer are both large, historic properties which will likely need maintenance and repair. Meridian hopes to maintain its reserve to meet future maintenance and repair needs.

Although cutting expenses or dipping into reserves is not an easy task, exempting Meridian from real property taxation, especially for uses of the property that are not ordinarily allowable under the exemption law, could set a precedent for other non-profit organizations that do not meet the District's definitions for exemption from real property taxation. These organizations currently include real property taxes in their expense line items when they are considering how much money they have to provide for services and programming. Exempting Meridian from this requirement could encourage other non-profit organizations to ask for similar exemptions.

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[4] About 60% to 65% of Meridian's revenue and expenses are considered pass through funds. The funds are provided directly from the U.S. Government for international visitors travel costs (*per diems*, local travel, cultural allowances, etc.) and the funds go directly to visitors.