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** Jeffrey S. DeWitt
DATE:	**June 24, 2014**
SUBJECT:	**"Tyler House Associates 95, LP Economic Interest Recordation Tax Relief Act of 2013"**
REFERENCE:	**Bill 20-632**

Findings

The proposed bill, Tyler House Associates 95, LP Economic Interest Recordation Tax Relief Act of 2013, would exempt the owner of the Tyler House Apartments (Tyler House) from certain economic interest recordation taxes, interest, penalties, fees, and other related charges. Under the bill, the owner would be refunded $1,550,684.59 in recordation taxes previously paid as part of a project transaction to acquire and renovate a low-income housing complex located at 1200 North Capitol Street, NW. The Office of Economic Development Finance (EDF) has determined that the proposed tax exemption is not necessary in order for the project to be completed.

Background

Tyler House consists of 284 units of rental housing, all of which is dedicated to residents who earn no more than 60% of Area Median Income. It was originally purchased and renovated in 1995 utilizing District of Columbia Housing Finance Agency (DCHFA) tax-exempt bond financing and Low-Income Housing Tax Credit (LIHTC) equity. In July 2013, the property owner secured financing for a substantial renovation, also utilizing DCHFA tax-exempt bonds and tax credit equity. The renovation includes a new building-wide HVAC system, new plumbing, improved elevators, a community room, a technology center, on-site Management office, playgrounds, pool facility, and new kitchens for residents.

In January 2013, the original LIHTC investor sold its interest in Tyler House Associates 95 LP to an affiliate of the managing partner, Roizman Development, Inc. (RDI). The entity subsequently converted from a limited partnership (Tyler House Associates 95 LP) to a limited liability company (Tyler House Associates 1995 LLC), maintaining the same ownership interests. As part of the July 2013 financing, a new LIHTC investor acquired 99.99% of the LLC's interests. RDI continues to be the managing member.

Due to circumstances related to the use of LIHTC equity, the transfer of the property was completed using an economic interest transfer rather than a sale of the deed. The Recorder of Deeds correctly assessed and collected taxes on three separate economic interest[1] transfers:

- Transaction recorded January 16, 2013 – $694,711.80 for transfer of economic interest in Tyler House Associates 95 LP from original LIHTC investor to RDI affiliate;
- Transaction recorded September 9, 2013 – $701,831.50 for conversion of Tyler House Associates 95 LP into Tyler House Associates 1995 LLC;[2] and
- Transaction recorded September 9, 2013 – $848,853.09 for transfer of economic interest in Tyler House Associates 1995 LLC from RDI affiliate to new LIHTC investor.

The proposed legislation would refund taxes paid on two of the three transactions.

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 will be prepared on the proposed legislation.

Terms of the Exemption or Abatement

The proposed legislation provides a one-time abatement of all economic interest recordation taxes, interest, penalties, fees (other than recordation fees and surcharges), and other related charges associated with transactions recorded on September 9, 2013.

Proposed Value of the Exemption or Abatement

The total value of the one-time abatement is $1,550,684.59, of which $1,550,621.59 relates to economic interest and $63 relates to fees.

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[1] Economic interest transfer tax is a tax on the transfer of the controlling interest in an entity that owns real property. This tax is a type of recordation tax.

[2] Conversion into an LLC would ordinarily be exempt from transfer and recordation tax pursuant to DC Code Official § 42-1102(22). However, DC Code Official § 29-204.06(h) provides that this exemption is contingent on there being no change in the ownership interests in the converted entity for the ensuing 12 months. Since ownership interest in the converted entity changed before the end of the 12 month period, taxes were appropriately assessed on the economic interest at the conversion.

Summary of the Proposed Community Benefits

A summary of the proposed community benefits, as submitted by Roizman Development, Inc. is attached to this analysis.

Financial Analysis for Development Projects

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

The property owner provided EDF with financial statements, projected cash flows, and detailed financing information. The table below summarizes the sources and uses of funds for the acquisition and renovation of the apartments.

Sources	
DC Housing Finance Agency Bonds	$45,760,000
Low Income Housing Tax Credit Equity	$29,269,708
Seller Financed Loan	$8,800,000
Deferred Developer Fee	$1,632,108
Interim Income	$1,124,731
General Partner Loan (Acquired Reserves)	$772,811
Total Financing Sources	**$87,359,358**
Uses	
Acquisition	$33,000,000
Hard Construction Costs	$27,951,526
Soft Costs (including transfer/recordation tax paid)	$5,168,653
Financing Costs	$8,172,245
Developer Fee	$8,455,792
Reserves	$4,611,142
Total Financing Uses	**$87,359,358**

EDF's analysis concludes the proposed abatement is not necessary to complete the full scope of renovations. Although the developer states certain renovation items cannot be funded without the proposed tax abatement, the developer can fund the renovation items and the recordation taxes by deferring $1,632,108 of its $8,455,792 total developer fee. The deferred portion of the fee would be able to be repaid from the project's net cash flow by 2019, within the 10-12 year timeframe imposed by most tax credit investors. [3]

[3] According to DCHFA multifamily underwriting guidelines, developer fees are limited to a maximum of five percent of the acquisition cost plus fifteen percent of all other development costs and the amount of the deferred fee to what can be repaid over 10-12 years. In this case, the $8,455,792 fee nears this maximum.