

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



Jeffrey S. DeWitt  
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:** Jeffrey S. DeWitt  
Chief Financial Officer

**DATE:** October 13, 2015

**SUBJECT:** "Local Jobs and Tax Incentive Act of 2015"

**REFERENCE:** Bill 21-353

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**Findings**

The intent of this tax incentive legislation is to keep the Advisory Board located in the District, keep the Company in business, encourage the Company to hire more District residents, and increase construction employment in the District. The primary intent of the legislation is to ensure the Advisory Board Company maintains its headquarters in the District of Columbia. Although the tax incentive may achieve this objective, the OCFO's Office of Economic Development Finance cannot determine the amount of abatement necessary, if any, to prevent the Advisory Board Company from relocating its headquarters outside of the District. However, based on a review of the company's strong financial and employment growth, the tax abatements proposed in the Local Jobs and Tax Incentive Act of 2015, assuming the Advisory Board remains in the District, are not necessary for the company to remain in business, to increase the number of Advisory Board employees who reside in the District, or to increase construction or construction employment in the District.

**Background**

The Advisory Board Company (Advisory Board) is a publicly traded technology, research and consulting firm headquartered in the District, with two offices located in the District and several offices across the country and overseas. According to its website, the company's revenues are projected to be between \$780 and \$790 million in calendar year 2015, up more than 35 percent from 2014, when revenues totaled \$575 million. The Advisory Board headquarters are currently located at 2445 M Street, NW. The company plans to move its headquarters to consolidate its current offices and to accommodate approximately 2,000 new employees over the next 10 to 15 years.

The firm is being offered a \$60 million real property tax abatement to remain in the District. The proposed legislation would abate the property taxes at a planned commercial development in Mt. Vernon Square, provided the Advisory Board leases at least 425,000 square feet for 15 years, meets certain District resident employment thresholds, and signs a negotiated community benefits agreement.

## **Financial Analysis**

The Exemptions and Abatements Information Requirements Act requires the analysis provided by the Office of Economic Development Finance (EDF) to contain certain information, provided below.

### Terms of the Exemption or Abatement

The legislation states the property shall receive a real property tax abatement of up to \$6 million per year for ten years, beginning in FY 2021. To receive the abatement, the Advisory Board must:

- 1) Lease a new headquarters office of at least 425,000 square feet for at least 15 years on a property which is located north of New York Avenue and south of L Street, NW, between 6th Street, NW and 7th Street, NW.
- 2) Meet certain employment thresholds, including District resident employment thresholds (discussed below).
- 3) Sign a Community Benefits Agreement.

Based on reporting information received from the Advisory Board, the Mayor shall certify to the Office of Tax and Revenue the amount of abatement to be applied each year.<sup>1</sup>

### Annual Proposed Value of the Exemption or Abatement

The annual proposed value of the abatement is \$6 million per year for 10 years, beginning in FY 2021.

### Summary of the Proposed Community Benefits

The Advisory Board has entered into a Community Benefits Agreement, see Attachment A below. Based on the Advisory Board’s business model, an extensive number of pro-bono and mentorship opportunities are currently made available to Advisory Board employees. Therefore, many of the benefits described in the attached would be realized with or without tax subsidies. EDF did not include these benefits in its analysis.

### Public Purpose

The primary purposes of the bill are to encourage the Advisory Board to maintain its headquarters in the District and to hire District residents. The bill intends to meet this goal by reducing the

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<sup>1</sup> Since property tax is paid by the owner, not the lessee, the owner would be exempt from the property tax, not the Advisory Board. EDF has been told that the abatement will flow through to the Advisory Board, as described in the lease between the owner, Douglas Jemal, and the Advisory Board. EDF has not received a copy of that lease for review.



company’s real property tax liability between FY 2021 and FY 2030. Whether the District provides a tax abatement will not affect the company’s ability to maintain operations or continue its growth.<sup>2</sup>

### Locational Decision

Research indicates that tax incentives are generally not a critical factor in corporate locational decisions. In particular, a skilled workforce, good public transportation, and quality of life are almost always more important factors, and the concentration of those amenities in the District is the reason District rents are typically higher than in surrounding areas. Without fully understanding the criteria the Advisory Board is using to make its locational decision or knowing which other cities are in contention, EDF cannot opine definitively on the necessity of the \$60 million subsidy to maintain the Advisory Board headquarters in the District, nor on what other level of subsidy might be needed.

### Resident Employment

To receive the full \$60 million abatement, the Advisory Board would need to increase and maintain the number of full-time District resident employees by 100 each year.<sup>3, 4</sup> If they fail to meet this threshold, the abatement will be prorated by the ratio of the company’s increase in District resident employees to the target. For example, for its second year of abatement, the company would need to have increased its District-resident employee count by 200, from the baseline of 865 to the target of 1,065 to get the full \$6 million abatement. If the company had hired 100 additional residents in the first year, and 50 more District residents in the second year, it would meet only 75 percent of the requirement (150 of 200) and it would receive 75 percent of the total abatement for that year, which is \$4.5 million.

Employment at the Advisory Board has been growing at 15 percent per year since it went public in 2001. The company expects to continue this level of growth.<sup>5</sup> If the Advisory Board elects to stay in the District, they would likely grow by 300 employees per year. Since more than 40% of current employees are District residents, it is likely they would meet the District resident hiring requirement as a matter of course, by employing 120 new District residents each year.<sup>6</sup> Thus, the incentive agreement does not require the Advisory Board to take any action beyond what it would have undertaken absent a tax abatement.

If the Advisory Board moved to a new headquarters in suburban Virginia (one proposal made public), the composition of the Advisory Board’s employee residency is unlikely to be significantly affected, due to the regional composition of labor markets. In its current location more than 43

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<sup>2</sup> Confirmed through conversation with Advisory Board’s Chief Financial Officer on September 11, 2015. The company’s property tax liability would be equal to less than 1 percent of revenue, a real property tax obligation would not be considered a hardship on the company. Because this was not disputed, further analysis on this point was not required.

<sup>3</sup> New District resident employees hired between September 2015 and 2019 would also count towards those annual hiring goals.

<sup>4</sup> In addition, the annual real property tax obligation for the building would have to be at least \$6 million to receive the full \$60 million abatement.

<sup>5</sup> Based on conversation with Advisory Board’s CFO on September 11, 2015.

<sup>6</sup> Data from the OCFO’s Office of Revenue Analysis in August 2015 show that resident employment has grown faster than the number of jobs located in the District for the past few years.

percent of the Advisory Boards’ existing employees live in the District.<sup>7</sup> If the Advisory Board moved to a building in Virginia, it is expected that a significant number of existing employees who reside in the District would continue to reside in the District, and a significant number of new hires would also reside in the District. On the margin, only a few more employees might reside in Virginia instead of the District. Therefore, if this legislation were to be evaluated on District resident employment, it is those few employees, who would otherwise reside in Virginia instead of the District, on which the \$60 million in tax subsidies should be evaluated. For example, if 10 fewer District residents would have been hired each year due to a relocation to Virginia, the \$6 million annual abatement could be providing \$600,000 per job retained.

### Real Estate

Rather than providing a tax abatement wherever they locate in the District, the proposed tax abatements are contingent upon the Advisory Board holding a lease in a specific vacant property on New York Avenue<sup>8</sup>. The tax subsidy provided to the Advisory Board through the owner, therefore, could be perceived as an indirect subsidy to the current property owner<sup>9</sup>. One asserted benefit of the legislation is the creation of new construction and construction jobs. Subsidizing the construction of this building may cause more rapid delivery of the building at this location. However, the location is in a fast growing part of the city that would likely be developed in the near future despite the legislation. Further, if development is encouraged at one particular location, it is likely to supplant another building project in the District. Thus the legislation is unlikely to create either net new real estate value or construction jobs.

### Conclusion

The intent of this tax incentive legislation is to keep the Advisory Board located in the District, keep the Company in business, encourage the Company to hire more District residents, and increase construction employment in the District. The primary intent of the legislation is to ensure the Advisory Board Company maintains its headquarters in the District of Columbia. Although the tax incentive may achieve this objective, the OCFO’s Office of Economic Development Finance cannot determine the amount of abatement necessary, if any, to prevent the Advisory Board Company from relocating its headquarters outside of the District. However, based on a review of the company’s strong financial and employment growth, the tax abatements proposed in the Local Jobs and Tax Incentive Act of 2015, assuming the Advisory Board remains in the District, are not necessary for the company to remain in business, to increase the number of Advisory Board employees who reside in the District, or to increase construction or construction employment in the District.

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<sup>7</sup> Per the incentive agreement, 865 of the 2,000 Advisory Board Employees (or 43 percent) currently reside in the District.

<sup>8</sup> The property is owned by Douglas Jemal, and construction has not begun.

<sup>9</sup> Because the Advisory Board ultimately cares about total occupancy costs, the owner might be able to receive a higher rent if other costs, such as real property tax, are lower.

ATTACHMENT A



COMMUNITY BENEFITS AGREEMENT BY  
THE ADVISORY BOARD COMPANY

September 16, 2015

The District of Columbia, by and through the Office of the Deputy Mayor for Planning and Economic Development, (“**District**”) and The Advisory Board Company (“**Company**”) have prepared and executed this agreement (“**Community Benefits Agreement**”) for the purposes of memorializing the terms under which the Company will provide public benefits required under the Local Jobs and Tax Incentive Act of 2015 (the “**Act**”) and that certain Incentive Agreement for Tax Abatement to The Advisory Board Company, which the parties have executed as of the day hereof.

The Company shall provide the following community benefits in order for the “**Property**” (as defined in the Act) to be eligible to receive the tax abatement during the Abatement Period (as defined in the Act) as authorized under the Act.

**1. TRAINING**

The Company shall collaborate with (a) the D.C. Department of Employment Services (“**DOES**”) (provided there is support from DOES), (b) the DC L.E.A.P. Academy (provided there is support from the DC L.E.A.P. Academy), and/or (c) one or more Washington, DC-based non-profit training institutions that was a participant in the most recently completed year of the DC One Fund, was a participant in the most recently completed year of the Combined Federal Campaign for the National Capital Area, or is otherwise approved by District (the “**DC Nonprofit Training Institution(s)**”) to provide training to an aggregate of at least 250 District of Columbia residents in preparation for healthcare or technology careers. To fulfill the requirement in this Section 1, the Company shall complete one or more of the following initiatives in conjunction with DOES, the DC L.E.A.P. Academy, or one or more DC Nonprofit Training Institutions:

- (1) Create a curriculum and provide a 12-hour training course at or for DOES, the DC L.E.A.P. Academy, or a DC Nonprofit Training Institution on entry-level healthcare careers;
- (2) Provide pro-bono program support; or
- (3) Provide mentorship to participants of programs that develop skills needed for entry-level healthcare or information technology work.

**2. EMPLOYMENT**

The Company shall enable employment opportunities for 25 of the following:

- (1) Graduates of the DC L.E.A.P. Academy or one or more DC Nonprofit Training Institutions or
- (2) DOES clients or disconnected youth.

To fulfill the requirement in this Section 2, the Company shall complete one or more of the following initiatives:

- (1) Work with local healthcare providers (e.g., hospitals) to place individuals in entry-level healthcare positions that are aligned with provided training;
- (2) Work with DC Nonprofit Training Institutions to sponsor the hiring of an individual for a six-month period (similar to the DOES Project Empowerment model, but sponsored by the Company);
- (3) Hire individuals for entry-level information technology support roles for the Company's (or one or more of its subsidiaries' or affiliates') internal operations;
- (4) Hire individuals for administrative support staff roles for the Company's (or one or more of its subsidiaries' or affiliates') internal operations or for other roles at the Company (or one or more of its subsidiaries or affiliates); or
- (5) Hire individuals through a program created by the Company either on its own or with one or more DC Nonprofit Training Institutions for the purpose of assisting disconnected youth and returning enlisted veterans in securing opportunities that could lead to professional entry-level employment at the Company.

District acknowledges and agrees that the Company shall not be responsible for the actions of any of the individuals employed or hired as a result of the efforts of the Company described in this Section 2 or trained pursuant to Section 1, and there can be no assurance that any individual is ultimately employed or hired for any particular duration or at all, provided that the Company offers the hiring opportunities, places no requirements more onerous than its normal and customary hiring requirements on candidates for the positions described herein, and uses its reasonable efforts to fulfil the hiring requirements described in this Section 2.

### **3. YOUTH DEVELOPMENT**

The Company shall collaborate with (provided there is support from) D.C. Public Schools (“DCPS”) to create a mentorship program either at targeted high schools or an “opt-in” program across all DCPS high schools, where the Company’s employees shall use their higher education expertise to provide year-long individualized support to DCPS students in the college admissions process, specifically addressing college choice, financial aid, applications, essays, and strategies to help increase the likelihood of student success. On an annual basis, the Company shall make available at least 50 employees to serve as mentors for this program. The program will be developed with the assistance of the Chancellor of DCPS and the Chancellor’s staff. Beginning in 2019 and each year through 2029, each High School Principal may formally “opt-in” to the program prior to the beginning of the DCPS academic year by delivering written notice to the Chief Financial Officer of the Company.

At the beginning of each summer beginning in 2019 and through 2029, the Company shall host an optional enrichment session for all Summer Youth Employment Program (“SYEP”) participants to provide:

- (1) A tour of the Property;
- (2) A facilitated session with the Company’s employees on lessons for success and presenting oneself in the corporate world;
- (3) A facilitated session in which the Company’s employees respond to questions from SYEP participants; and



- (4) A facilitated session in which SYEP participants have the opportunity to network with the Company's employees and connect with mentors for the SYEP experience and, if applicable, the college application process.

Additionally, the Company, or one or more of its subsidiaries or affiliates, will employ five (5) SYEP participants each summer from 2019 through 2029.

#### **4. FREE SERVICES TO UNDERSERVED AND OVERLOOKED COMMUNITIES**

The Company (together with its subsidiaries or affiliates) shall provide 25,000 hours of volunteer services to Washington, DC-based non-profit organizations during each tax year beginning in 2019 and through 2029, inclusive of at least 8,000 hours per year of pro bono consulting services to Washington, DC-based non-profit organizations.

#### **5. CONFLICTS; TERMINATION; AMENDMENT**

This Community Benefits Agreement is subject to the enactment and passage of the Act, as evidenced by an assignment of a D.C. Law designation, and shall not be effective until the same occurs. This Community Benefits Agreement shall automatically terminate following the Company's delivery to District of the certification of compliance in 2029 pursuant to Section 6 . This Community Benefits Agreement may be amended by written agreement of the parties.

#### **6. CERTIFICATION OF COMPLIANCE**

The Company shall be responsible for documenting compliance with the above community benefits by certifying compliance on an annual basis in accordance with the Incentive Agreement and the Act by delivering to District a certificate in the form attached to this Community Benefits Agreement as Exhibit A (or such other form as is agreed upon by District and the Company in writing) by October 31 of each year commencing in 2020 and continuing until October 31, 2029.

[Signature page follows.]



IN WITNESS WHEREOF, this Community Benefits Agreement is executed by the undersigned as of the date first written above.

The Advisory Board Company

District of Columbia, by and through  
the Office of the Deputy Mayor for  
Planning and Economic  
Development



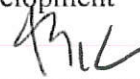
Robert Musslewhite, Chief Executive Officer

Brian T. Kenner, Deputy Mayor

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