

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**

A handwritten signature in black ink that reads "Jeffrey S. DeWitt".

**DATE: June 16, 2015**

**SUBJECT: Naval Lodge Building, Inc. Real Property Tax Exemption Act of 2015**

**REFERENCE: B21-0086**

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**Findings**

The tax exemption proposed by Bill 21-0086 is not necessary for the Naval Lodge Building to continue its current operations. Information submitted to the Chief Financial Officer's Office of Economic Development Finance (EDF) by Naval Lodge No. 4 demonstrates a variety of revenue sources available to pay building expenses, including real property taxes.

Please refer to the separate Fiscal Impact Statement for the effect of the proposed legislation on the District's financial plan.

**Background**

Naval Lodge No. 4 (the Lodge) is the oldest continually operating masonic lodge in the District of Columbia. The Lodge operates as a private fraternity that is not organized for financial benefit. The Lodge owns the Naval Lodge Building, a 4,700 square foot office building two blocks from the U.S. Capitol on Pennsylvania Avenue in the Southeast quadrant of the District. A portion of the building includes a hall and banquet rooms for the use by the Lodge and other groups.

The Lodge derives nearly 100 percent of its income from rent. Sources of rental income include lodge rental, commercial retail rental, and commercial office space rental – which is the largest income source of the three.

During the three years for which EDF was provided financial statements, the Lodge has experienced modest increases in expenses, modest decreases in revenue and sustained cash reserves. This is combined with a significant increase in assessed value from 2014 to 2015.

Nonetheless, the Lodge has fully paid all property taxes due since 2005, though it has not always paid in a timely manner. Since 2012, Naval Lodge No. 4 has paid property taxes totaling \$179,365 plus \$40,868 in interest, penalties and back taxes<sup>1</sup>.

In 2015, OTR’s assessment of the Naval Lodge Building increased from \$3,626,330 to \$6,083,700, which resulted in a \$45,461 increase in property taxes. The organization filed an unsuccessful assessment appeal for tax year 2015. There is now an appeal pending for the 2016 assessment. The Lodge has paid the first half of 2015 property taxes in full.

### Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the Office of the Chief Financial Officer (OCFO) to contain certain information. The required information is included below.

#### Terms of the Exemption or Abatement

The proposed legislation exempts in perpetuity the Naval Lodge Building from real property taxation so long as it is owned by Naval Lodge No. 4 or its subsidiaries and is not used for commercial purposes<sup>2</sup>. In addition, the legislation forgives any real property taxes, interest, penalties, fees and other related charges assessed against the property for the period beginning with tax year 2014 through the effective date of the act. Any payments already made would be forgiven and refunded.

#### Annual Proposed Value of the Exemption or Abatement

The proposed legislation would fully refund \$67,195.81 of property taxes and penalties paid in 2014 and exempt the property in perpetuity. The exemption is valued at approximately \$5 million over the next 30 years.

| <b>Estimated Value of Property Tax Abatement for Naval Lodge No. 4</b> |                  |                  |                  |                  |                                       |                                       |
|--|------------------|------------------|------------------|------------------|---------------------------------------|---------------------------------------|
|  | <b>FY 2015</b>   | <b>FY 2016</b>   | <b>FY 2017</b>   | <b>FY 2018</b>   | <b>Total<br/>FY 2019-<br/>FY 2044</b> | <b>Total<br/>FY 2015-<br/>FY 2044</b> |
| Real Property Tax Abatement  | \$106,548        | \$104,369        | \$107,291        | \$111,154        | \$4,627,133                           | <b>\$5,056,496</b>                    |
| FY 2014 Real Property Tax Refund                                       | \$67,196         | \$0              | \$0              | \$0              | \$0                                   | <b>\$67,196</b>                       |
| <b>Total</b>   | <b>\$173,744</b> | <b>\$104,369</b> | <b>\$107,291</b> | <b>\$111,154</b> | <b>\$4,627,133</b>                    | <b>\$5,123,692</b>                    |

<sup>1</sup> According to Naval Lodge No. 4, \$17,726.85 of this total paid 2011 back taxes.

<sup>2</sup> As currently drafted, the bill exempts the property only to the extent it is not used for commercial purposes (subject to the requirements of D.C. Official Code sec. 47-1005). Much of the building is rented to commercial tenants, and those portions would technically not qualify for exemption under the current bill. Under the current bill, the property generally would qualify for exemption only for non-income producing or noncommercial activities, such as activities of the Lodge. However, based on the submission of the Naval Lodge and discussions with Council staff, the OCFO expects the legislation to be amended to exempt the entire building, and this TFA has been completed as if a full exemption were proposed.

Summary of the Proposed Community Benefits

A summary of the proposed community benefits as submitted by Naval Lodge No. 4 is attached to this analysis.

Financial Analysis for Existing Buildings

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

The proposed legislation would provide a full exemption in perpetuity for a mostly commercial office building. EDF finds Naval Lodge No. 4 can reasonably be expected to meet its fiscal needs without the proposed abatement.

The Lodge has a variety of revenue sources. While income fluctuates significantly each year, the Lodge continues to make real property tax payments and carries cash reserves year to year. It is likely that the Lodge can be managed to maintain sufficient rental revenues to fully pay building expenses, including taxes.

Attachment  
Community Benefits  
(Submitted by Naval Lodge 4)

Freemasonry, America's largest and oldest fraternity has been an integral part of community life in the United States for over 250 years. As the Grand Lodge of Washington DC states in its mission statement, Freemasons seek "to unite men of differing beliefs into a harmonious and productive community through the application of Masonic moral values and the practice of benevolence, intellectual development, and mutual respect."

Under these guiding principles, Naval Lodge No. 4 was founded in 1805 at the Washington Navy Yard. Since that time, Naval Lodge has been an important contributing part of the city and the Ward 6 community. Naval Lodge has used its building for Masonic meetings as well as lending it out as a community space. This continues a tradition started more than 200 years ago when Naval Lodge allowed the bottom floor of its first building to be used as a school that gave free education to orphans in the District.

In addition to its extensive charitable works, Naval Lodge is proud to have a long history as a hub for civic activity. Over the years, the Lodge has offered its hall at little or no cost for ANC meetings, union meetings, history lectures, Boy Scout events, dance and music recitals, weddings, birthday and anniversary parties, bar mitzvahs, and other community events.

The members of the Naval Lodge have worked hard to maintain, repair and upgrade the historic 120-year-old building. While attempting to preserve this invaluable landmark, the members of the Lodge have watched with increasing concern as their real estate property tax assessment has risen. In 2005, the real estate property assessment for the Naval Lodge Building was \$43,347.16. In 2014, the real estate property assessment was \$55,293.55. In less than 10 years, the Naval Lodge has seen its property tax bill increase by more than 20%. This expense has forced Naval Lodge to defer critical and expensive maintenance projects such as a new roof, new A/C system and re-pointing the building's extensive brickwork.

Naval Lodge No. 4 requires a real property tax abatement for its building to properly repair and maintain this historic property, and continue to make it available for the Ward 6 community.