

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

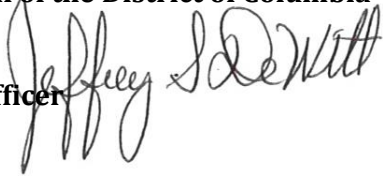


Jeffrey S. DeWitt
Chief Financial Officer

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: **June 3, 2016**

SUBJECT: **Walker Jones/Northwest One Unity Health Center Tax Abatement**
Amendment Act of 2016

REFERENCE: **Subtitle (VII)(P) of the Fiscal Year 2017 Budget Support Act of 2016**

Findings

The proposed bill would provide a 5-year abatement of real property taxes on commercial space leased by Unity Health Care, Inc. at 40 Patterson Street, NE. The estimated value of the abatement is \$1.0 million over the abatement period. The Office of Economic Development Finance (EDF) finds the proposed abatement is not necessary for the recipient to meet its current fiscal needs.

Under current DC Code, nonprofit organizations owning buildings used for purposes of public charity may file for an administrative categorical exemption from real property taxes. In this instance, Unity Health Care cannot receive this exemption because it leases the space from a private owner.

Please refer to the OCFO's separate Fiscal Impact Statement for the effect of the proposed legislation on the District's FY 2017 through FY 2020 budget and financial plan.

Background

Unity Health Care, Inc. is a non-profit organization that has been providing primary medical care services in the District since 1985. Its mission is "promoting healthier communities through compassion and comprehensive health and human services, regardless of ability to pay." Unity currently operates in all eight wards of the city through a network of 29 health centers and a mobile medical outreach vehicle.

Under current DC Code¹, nonprofit organizations using buildings for purposes of public charity may file for an administrative categorical exemption for real property they own. All of Unity’s other existing facilities where it owns the building currently benefit from this exemption. However, the Walker Jones/Northwest One property does not qualify for this exemption because Unity leases space from a private owner.

The proposed legislation abates the real property taxes Unity pays for its Walker-Jones/Northwest One Health Center located in Square 672, Lot 253. Under the terms of its triple-net lease, the building owner passes through the liability for any property taxes. The legislation amends an existing abatement passed in 2009 for the time period October 1, 2009 to September 30, 2013 but never included in the District’s budget and financial plan.²

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.

Terms of the Exemption or Abatement

The legislation provides an exemption from all real property taxes for fiscal years 2017-2021.

Annual Proposed Value of the Exemption or Abatement

Based on Unity occupying the building through 2021, the OCFO estimates the proposed value of the exemption to be \$1,013,244.³

Estimated Value of Property Tax Abatement for Walker-Jones/Northwest One Health Center						
	FY 2017	FY 2018	FY 2019	FY2020	FY2021	TOTAL
Real Property Tax Abatement	\$190,849	\$196,575	\$202,472	\$208,546	\$214,802	\$1,013,244

Summary of the Proposed Community Benefits

A summary of the proposed community benefits, as submitted by Unity Health Care, is attached to this analysis.

Financial Analysis for Existing Buildings

¹ D.C. Official Code § 47-1002.

² Unity previously served this community from a building it owned at 1100 First Street, NW and for which it did not pay real property taxes. In late 2007, Unity was notified its health center would be demolished as part of the Northwest One development and secured nearby space through a lease agreement requiring the tenant to pay real property taxes on a pass-through basis.

³ Unity’s current lease expires in March 2018. The legislation as introduced provides an exemption through September 2021. EDF was informed the legislation will be amended to reflect the exemption would be applied only so long as Unity occupies the space. This TAFAs assumes Unity will remain in its current space through 2021 and the legislation will be amended to include a use restriction prior to final passage.

Review and Analysis of the Financial Condition of the Recipient of the Proposed Exemption and Advisory Opinion Stating Whether or Not It Is Likely that the Recipient Could Be Reasonably Expected to Meet Its Fiscal Needs without the Proposed Exemption or Abatement.

Unity Health Care, Inc. provided EDF with consolidated financial statements for 2012 through 2014, and unaudited information for 2015. Since Unity reports all of its facilities through the parent company, the separate financial position of the Walker-Jones/Northwest One facility cannot be discerned from the information provided. The financial information shows Unity had operating surpluses in 2012, 2013 and 2015 without depreciation and amortization, which are non-cash expenses. The consolidated statements likely reflect cross-subsidy between properties Unity operates. Unity has been paying property taxes for the clinic since 2009. While the continued payment of real property taxes may be a hardship in operating this particular health center and limit funds available for other purposes, Unity Health Care, Inc. is able to meet its fiscal needs without the proposed abatement.

Attachment
Community Benefits – Walker-Jones/Northwest One Health Center
(Submitted by Unity Health Care, Inc.)

Unity’s Walker-Jones/Northwest One Health Center is a critical component of the District’s health care safety-net. The District made this clear when they urged Unity to relocate the Health Center to another location in the same neighborhood upon issuing a notice to vacate in late 2007. As a result, on March 1, 2008, Unity signed a lease with 40 Patterson, LLC for an initial period of 5 years and one extended term of 5 years. This lease will expire on February 30, 2018, when Unity must decide whether to continue at the Health Center’s current location.

The Health Center is an integral part of the community it serves. With its central location and proximity to Chinatown, Walker-Jones serves a diverse group of patients, including African immigrants, Chinese and Asian populations, as well as a large portion of Hispanics and African-Americans. The vast majority of the patients are low-income and about two-thirds rely on Medicaid for their health coverage.

Walker-Jones serves as the medical home for about 7,500 patients, including 1,000 children, annually, through 25,000 visits. The staff of health professionals provides primary care, ob/gyn, dental, behavioral health, infectious disease, and family planning services on-site at Walker-Jones. Despite the rapid growth and gentrification in the neighborhood since its opening, Walker-Jones patients continue to rely on their historical and strong relationship with the Health Center. Patient and visit numbers have remained steady, demonstrating the established and continuing demand for the important services provided at Walker-Jones.

In financial terms, over \$4.4 million in medical care to District residents was provided to low-income District residents at the Health Center in 2015. That year, the Health Center was reimbursed \$3.4 million for this care, creating a deficit of approximately \$1 million. **Of the \$851,250 Unity paid to rent the Health Center in 2015, \$190,850 – 22 percent – was due to passed through real property taxes.** Eliminating this non-health care related expenditure would reduce Unity’s operating deficit for the Health Center by 19 percent.

The “Exemptions and Abatements Information Requirements Act of 2011” requires the Office of the Chief Financial Officer to provide the Council with an opinion on whether or not a proposed abatement is necessary. We believe that the future viability of the Health Center will depend, in large part, on Unity’s ability to cut expenses at the location. This will either be done by reducing or eliminating health care and medical services or by reducing non-health care related administrative expenses, of which real property taxes constitute the largest share.

The District has stated its interest in maintaining health services for low-income residents in this community. Indeed, the costs of replacing these services in the absence of the Health Center would be far greater to the District. And while it is true that Unity, in some years, may be able to adjust for losses at the Health Center with revenue earned at other locations, we feel that such a finding would be short sighted. Ultimately, Unity must make service decisions that are in the interest of the organization’s overall financial health. The continued imposition of real property taxes at the Health Center detracts from its ability to serve residents in this community.

Finally, as a matter of consistency and fairness, the District should provide a real property tax abatement for the Health Center just as it does for other types of non-profits that are supported by District revenues and that lease from private landlords – i.e., Charter Schools (See D.C. Official

Code § 47-867). When deciding to enter into its current lease at the Health Center, Unity relied on the stated willingness of the District to abate the real property taxes on the site. As we plan for the future of our organization, we must weigh the viability of each location that we currently serve.