

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



Fitzroy Lee
Acting 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: **Fitzroy Lee**
Acting Chief Financial Officer

A handwritten signature in black ink that reads "Fitzroy Lee".

DATE: **April 18, 2022**

SUBJECT: **Tax Abatement Financial Analysis- "206 Elm St N.W. Real Property Tax Abatement Amendment Act of 2022"**

REFERENCE: **Draft Subtitle Provided March 14, 2022**

Findings

The proposed bill (the Bill) would provide a real property tax abatement to the property at 206 Elm St. N.W. (the Property) for Fiscal Year 2023 (FY23).

The real property tax abatement would last for up to one year and cannot exceed \$30,000 in total. The Property was taxed at the Class 3 (vacant) rate in Fiscal Year 2022 (FY22). The property owner, Dr. Aprille Ericsson (the Applicant), indicated that she cannot afford the additional tax burden without incurring debt. The OCFO finds that the abatement is not necessary to meet the Applicant's fiscal needs, given that the Applicant has not pursued alternative financing and may be able to finance the additional tax burden with a mortgage on the property.

Background

The Property is a two-unit residential building in the LeDroit Park neighborhood of Ward 1 and is known for tax and assessment purposes as Lot 805, Square 3087. The building was damaged in a fire in 2017 and has been uninhabitable since the fire. Due to a prolonged delay from the original contractor and continued supply chain issues, the renovation of the building was not completed prior to the expiration of a DCRA vacant property tax exemption. DCRA provided the exemption because the building was under active construction, but once the exemption expired the property was reclassified to the Class 3 (vacant) rate for FY22. The property's renovation will be given full insurance coverage, but only 60% of the claim payment has been released. The remainder will be

Tax Abatement Financial Analysis- “206 Elm St N.W. Real Property Tax Abatement Amendment Act of 2022”

released when all construction is completed. Until then, the Applicant has covered the difference between the construction costs and the insurance payments via credit card. The increased taxes are an additional expense that the Applicant needs to bear: the Applicant’s mortgage lender for the property has increased the required monthly payment to \$8,000 so the escrowed amounts can cover future taxes at the current rate¹. The construction project manager estimates a completion date of June 2022. The Applicant is an individual who uses the building as an income property and plans on returning it to an income property use. She also stated that the basement of the property will be used for educational purposes, as mentioned in Appendix A.

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.

(A) Terms of the Abatement

The proposed legislation abates the property’s real property tax liability, up to a maximum of \$30,000, in total, in FY23.

(B) Value of the Abatement

The value of the abatement will depend upon the classification of the property in FY23. As shown in Table 1, the abatement will provide \$30,000 in relief to the Applicant, assuming the property remains taxed at the Class 3 (vacant) rate for all or part of FY23.

Table 1: Estimated Value of the Proposed Tax Abatement

	FY 2023	FY 2024	FY 2025	FY 2026	Total FY23-26	Total FY26-51	Total
Exempted Real Property Tax	\$30,000	\$0	\$0	\$0	\$30,000	\$0	\$30,000

Table 2 shows the estimated value of the abatement in the case that the property is reclassified to residential for all of FY23.

Table 2: Estimated Value of the Proposed Tax Abatement

Exemption	FY 2023	FY 2024	FY 2025	FY 2026	Total FY23-26	Total FY26-51	Total
Exempted Real Property Tax	\$13,136	\$0	\$0	\$0	\$13,136	\$0	\$13,136

¹ According to the Applicant, the lender’s increase in her mortgage payment is to cover the increased taxes. Despite paying more, less of the total payment will cover the mortgage principal. The lender’s current estimate is that the mortgage will be paid in full in 2062.

(C) Purpose of the Abatement

The purpose of this tax abatement is to provide tax relief to the Applicant unavailable through administrative means.

(D) Summary of the Proposed Community Benefits

The community benefits provided by the Applicant are set forth in Appendix A.

(E) Financial Analysis and Advisory Opinion

The \$30,000 abatement in FY23 will provide the Applicant with financial relief from real property taxation in FY23. The estimated total tax liability for the property in FY22 is \$62,003.75, assuming the property remains in Class 3 for the full year.² The estimated real tax liability in the year of the proposed abatement (FY23) is dependent on whether and when the property is reclassified. The Applicant plans to have the building completed by June 2022. If the property is reclassified to Class 1 for all FY23, the tax liability is estimated to be \$13,163.36. If there are delays in the completion of the property and it is not reclassified to Class 1 until the second half of the fiscal year, the tax liability is estimated to be \$45,297.43. If the property is not reclassified during FY23, the tax liability is estimated to be \$77,431.50.³ Based on an Applicant-provided summary, the Applicant’s monthly net salary does not cover the mortgage, escrow and other fees for the property in its current state and the mortgage on her personal residence. This is before other life expenses. The Applicant, based on statements and materials provided, does not have sufficient savings to cover this additional tax burden imposed in FY22 and possibly in FY23.

However, the Applicant may have access to alternate financing of the additional tax expense. The Applicant indicated that alternative financing has not been pursued. Given the assessed value of the Property, the Applicant has the opportunity to pursue mortgage financing to relieve the financial burden.⁴ Rental income from the property beginning in the fall of 2022 will also lessen the financial impact of the additional tax liability.

Conclusion

The OCFO finds that the abatement is not necessary to meet the Applicant’s fiscal needs, given the Applicant’s ability to finance the additional tax burden.

² The additional tax burden – the difference between the Class 1 and the Class 3 rate – is \$51,463.

³ The difference between the Class 1 and Class 3 tax liability for FY23 is \$64,268 for the full year, and \$32,134 for a half year.

⁴ The Property’s assessed value in FY23 is \$1,548,630. The additional cost to the Applicant would depend on the amount financed and the mortgage terms. Using an assumption of a 5% fixed interest rate and a 20-year term on the amount additional tax imposed by the Class 3 tax rate, the Applicant would make an additional monthly payment of approximately \$340 for the \$51,463 in additional taxes for FY22, and approximately \$552 a month on the estimated additional tax burden of \$83,597 if the Class 3 rate is also applied for the first half tax bill for FY23.

Appendix A

Summary of Community Benefits Provided by Applicant

I am a unicorn. I am an international known, NASA Aerospace/Mechanical engineer, Federal worker (30 years), community leader, educator, and run a non-Profit STEM youth organization.

During this pandemic I have been able to continue to lead the Dynamic Mathematical Visionaries NSBE Jr Chapter. Please check out our website, DMVNSBEJR.Org. We have had numerous successes with our STEAM programs: Code Academy, FIRST LEGO League (FLL) and VEX Robotics, MathCounts Video and Competition Team, TMAL, Engineering Tomorrow, KidWind, Future City and Gavel Club. One of our Robotics Team, #Girl Code is two-time NSBE National FLL Champions. The experiences and skills we grow and nurture in our scholars have consistently afforded our High School Seniors acceptance to multiple colleges with full scholarships.

I plan to use the basement of this property as a meeting room for our team's robotics and STEM exercises during the week. Our DMV NSBE Jr Chapter is listed as a volunteer site for DC high schoolers. This location remains perfect for the many Howard University (HU) students to walk over from campus and work with our k-12th youth. In addition, I mentor the collegiate students and provide them with experiences that will enhance their resume and grow their talents. Most recently, I obtained funding to sponsor 3 local teams to build an avionics package that will collect data on a suborbital rocket flight. This space will allow me to work with them in easy access location. I am also working with students from HU, UDC, GWU, FAMU, and Cornell University.

If some consideration is not given, I will have to go into further debt. If I am forced to take on additional jobs that would disrupt my NASA career (and responsibilities which are more numerous than my community volunteerism) and continue to disrupt my daughter's future scholarship as an 8th grade President at Howard University Middle School of Math and Science. Taking on any additional work will affect my ability to continue to mentor and serve the 100-120 DMV children that I provide STEM enrichment (www.dmvnsbejr.org) and the 40 collegiate students from HU, UDC and GW that I work with in our NSBE Jr Chapter.