

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:** **November 14, 2018**

**SUBJECT:** **“Local Jobs and Tax Incentive Amendment Act of 2018”**

**REFERENCE:** **Bill 22-918**

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**Findings**

The proposed bill would repeal sections of the Local Jobs and Tax Amendment Act 2015<sup>1</sup> providing a real estate tax abatement for the Advisory Board Company (“Advisory Board”) and instead provide an abatement of real property taxes over a 10-year period of up to \$20 million for EAB Global, Inc. (“EAB”)<sup>2</sup>. Based on the growth of the company’s revenue reported in the financial information provided by EAB<sup>3</sup>, the Office of the Chief Financial Officer (“OCFO”) finds an abatement of the proposed property tax in the Local Jobs and Tax Incentive Amendment Act of 2018 is not necessary.

**Background**

EAB operated as a division of the Advisory Board until being sold, along with the assets of Royall & Company, in November 2017 to Vista Equity Partners. Based on information from its website, EAB, founded in 2007, is a leading provider of research, student success management software, and data-enabled student enrollment solutions to the non-profit educational and K-12 market segments. EAB

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<sup>1</sup> D.C. Law 21-71, codified at D.C. Official Code §§ 47-4665.01 through 47-4665.05.

<sup>2</sup> EAB’s property tax abatement application indicated the total amount of the abatement is \$21 million. On August 29, 2017 the Advisory Board announced its education business, Education Advisory Board and Royall & Company, was sold to Vista Equity Partners for \$1.55 billion. The sale finalized on November 17, 2017 with the controlling entity, Avatar Holdco, LLC, reporting an acquisition of \$1.5 billion on the unaudited consolidated and combined statements of cash flows from period of November 17, 2017 to December 31, 2017.

<sup>3</sup> Annual revenue for EAB grew substantially from 2014 to 2016, based on the audited statements of operations. While remaining positive, the annual growth in revenue diminished in 2017 from 2016 based on the annual unaudited consolidated and combined statements of operations for Avatar Holdco, LLC, as of December 31, 2017, and the audited statements of operations for Education Advisory Board, year ended December 31, 2016.

provides solutions that assist over 1,100 higher education and 100 K-12 institutions to increase enrollments, balance financial assistance with revenue generation, and drive higher student retention and success rates.

The Advisory Board, formerly a publicly-traded District company that provided research, technology, and consulting services to health care organizations and educational institutions, received a 10-year real property tax abatement of up to \$60 million beginning in fiscal year 2021. With the approval of the Local Jobs and Tax Amendment Act of 2015 (“2015 Act”), the Advisory Board received an abatement of property taxes, as required in the 2015 Act, if the company:

- 1) Leased premises in the District of at least 425,000 square feet of net rentable area for at least 15 years on or before December 31, 2015;
- 2) Employed a full-time employment threshold of 100 District residents on an annual basis to total 1,000; and
- 3) Signed a Community Benefits Agreement.

The Advisory Board announced in August 2017 an agreement to sell its health care business to Optum for \$1.3 billion along with its education business, Education Advisory Board, to Vista Equity Partners for \$1.55 billion. With the sale of these business units, the Advisory Board, as defined in the 2015 Act, no longer existed. The proposed legislation repeals an abatement provided by the 2015 Act and instead provides a property tax abatement for EAB.

### **Tax Abatement Financial Analysis**

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the OCFO to contain the following information:

#### **(A) Terms of the Abatement**

The legislation states the property shall receive a real property tax abatement of up to \$2 million per year for ten years, beginning in fiscal year 2021. To receive the abatement, EAB must in general:

- 1) Lease property located in the District on or before January 1, 2019 of at least 148,750 square feet of net rentable area for at least 10 years;
- 2) Meet certain employment thresholds, including hiring 350 net new District residents; and
- 3) Sign a Community Benefits Agreement.

Based on reporting information received from EAB, the Mayor shall certify to the Office of Tax and Revenue, the property’s eligibility for the property tax abatement to be applied each year.<sup>4</sup>

#### **(B) Value of the Abatement**

Based on the terms of the abatement, the maximum value of the abatement is \$20 million as shown in Table 1.

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<sup>4</sup> Since real property tax is levied on the property, not the lessee, the property would receive the tax reduction resulting from the abatement, not EAB. The legislatively approved abatement will flow through to the EAB, as described in a current or potential the lease between the building owner and EAB.

**Table 1: Value of Abated Taxes**

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023- FY 2030	TOTAL
Abated Real Property Tax	\$0	\$0	\$2,000,000	\$2,000,000	\$16,000,000	\$20,000,000

(C) Purpose of the Abatement

The tax abatement outlined in the Local Jobs and Tax Incentive Amendment Act of 2018 will allow EAB to assume its proportionate share of the 2015 Act. The purpose for the abatement is also to keep EAB located in the District, encourage EAB to hire more District residents, increase construction employment in the District, and enter into Community Benefits Agreement with the District to provide training, employment and youth development, and free services to underserved communities in the District.

(D) Summary of the Proposed Community Benefits

A summary of the proposed community benefits, as submitted by EAB Global, Inc., is attached to this analysis<sup>5</sup>.

(E) Financial Analysis and Advisory Opinion

EAB provided the OCFO with unaudited consolidated and combined financial statements for Avatar Holdco, LLC for 2017 and audited financial statements for Education Advisory Board for 2014 to 2016 containing revenue, expenses, and cash flow information for the company. The past three years of unaudited and audited financial statements show EAB is able to make real property tax payments and achieve positive revenue growth in each year. Therefore, despite transaction costs relating to the acquisition in 2017 and goodwill impairment expense in 2015 that impacted net income, revenue growth remained positive, and the proposed property tax abatement is not necessary.

**Conclusion**

The ten-year real property tax abatement proposed by the Local Jobs and Tax Incentive Amendment Act of 2018, Bill 22-918, is not necessary for EAB Global, Inc. to meet its fiscal needs.

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

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<sup>5</sup> The OCFO conducted an analysis of the public purpose, location decision, resident employment, real estate, and construction impact of the proposed community benefits associated with the 2015 Act in the following report: <https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/TAFa%20B21-353%20Local%20Jobs%20and%20Tax%20Incentive%20Act%20of%202015.pdf>

**Attachment: Applicant Provided Statement of Community Benefits**

A summary of the proposed community benefits to be provided by the abatement, if known, including, but not limited to:

EAB is presently in discussions with the Deputy Mayor for Economic Development concerning a Community Benefits Agreement that would largely adopt many of the commitments agreed to as part of the 2015 Act, on an adjusted basis, to reflect EAB’s proportionate tax abatement share (35%) of the 2015 tax abatement amount. EAB also proposes providing additional benefits in the form of an annual membership in EAB’s District Leadership Forum provided to the DC Public School system during the tax abatement period.

- a. The number of affordable housing units to be developed, if any, including:
  - i. Level of Area Median Income (AMI) at which units will be affordable, if applicable; and
  - ii. The projected financial value of the proposed subsidy based upon the difference between the value of a comparable market rate unit and a proposed affordable unit within the same neighborhood, if applicable.

**EAB RESPONSE:** Not applicable.

- b. The proposed number of jobs to be created by the project, if any, including:
  - i. Whether the jobs are temporary or permanent (permanent jobs are those involved in the ongoing operation of the commercial property);
  - ii. Full-time or part-time (full-time jobs are those working at least 35 hours a week);
  - iii. The estimated wages and benefits for each job; and
  - iv. The number of jobs that are committed to District residents.

**EAB RESPONSE<sup>6</sup>:**

Below are EAB’s actual employment numbers from 2015 to 2018 as well as their full-time District resident count for the same time period. The job creation chart in the executed tax incentive agreement will reflect actual numbers rather than the projected job creation targets EAB sent by way of example in its response to the OCFO. See numbers below:

As of September 16, 2015 (date of the Advisory Board Company Tax Incentive Agreement)

Total Headcount in DC: 434 FTEs  
DC Resident Headcount: 193 FTEs

As of October 1, 2016

Total Headcount in DC: 578 FTEs  
DC Resident Headcount: 267 FTEs

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<sup>6</sup> Capitalized terms used in EAB’s responses shall have the meanings set forth in the Bill to Amend the Local Jobs and Tax Incentive Amendment Act of 2015 a copy of which accompanies this response form.

As of October 1, 2017

Total Headcount in DC: 664 FTEs  
DC Resident Headcount: 287 FTEs

As of October 1, 2018

Total Headcount in DC: 636 FTEs  
DC Resident Headcount: 295 FTEs

EAB’s receipt of tax abatements described above are subject to EAB’s hiring of an aggregate of 350 District Residents (as defined in the Act) by September 30, 2029. The chart below sets forth the projected job creation targets as part of the tax incentive agreement.

<u>Reporting Period</u>	<u>Accumulated New District Resident Hires</u>
10/1/19-9/30/20	35 (for a total of at least 338 District Residents as of the 1 <sup>st</sup> Annual Reporting Date)
10/1/20-9/30/21	70 (for a total of at least 408 District Residents as of the 2 <sup>nd</sup> Annual Reporting Date)
10/1/21-9/30/22	105 (for a total of at least 443 District Residents as of the 3 <sup>rd</sup> Annual Reporting Date)
10/1/22-9/30/23	140 (for a total of at least 478 District Residents as of the 4 <sup>th</sup> Annual Reporting Date)
10/1/23-9/30/24	175 (for a total of at least 513 District Residents as of the 5 <sup>th</sup> Annual Reporting Date)
10/1/24-9/30/25	210 (for a total of at least 548 District Residents as of the 6 <sup>th</sup> Annual Reporting Date)
10/1/25-9/30/26	245 (for a total of at least 583 District Residents as of the 7 <sup>th</sup> Annual Reporting Date)
10/1/26-9/30/27	280 (for a total of at least 618 District Residents as of the 8 <sup>th</sup> Annual Reporting Date)
10/1/27-9/30/28	315 (for a total of at least 653 District Residents as of the 9 <sup>th</sup> Annual Reporting Date)
10/1/28-9/30/29	350 (for a total of at least 688 District Residents as of the 10 <sup>th</sup> Annual Reporting)

On an annual basis the tax abatement will be determined as follows:

- (1) If the Total Employment Baseline is exceeded and the annual requirements for the Accumulated New District Resident Hires are met, as measured on the applicable Annual Reporting Date, then the abatement for such tax year shall equal \$2,100,000.00
  - (2) If the annual total of Net New District FTE Hires is less than the requirements for the requirements for the accumulated New District Resident Hires for the same period as determined by the Incentive Agreement, but the Total Employment Baseline is exceeded, then the Abatement for each such tax year shall be calculated based on the ratio of actual Net New District FTE Hires to the requirement for Accumulated New District Resident Hires of the Annual Reporting Date; and
  - (3) If there are fewer FTEs than the Total Employment Baseline as of an Annual Reporting Date, then the Abatement for each such tax year shall be \$0.
- c. Description of any other public policy goal(s) the exemption or abatement is meant to address and expected results

**EAB RESPONSE:** EAB’s receipt of the Abatement is a critical factor in its decision whether to keep its headquarters located in the District and to hire District Residents. EAB has explored lower cost real estate options and considered diverting employment growth to other existing office locations, both of which would be lower cost than remaining within the District. The tax abatement offsets some of this cost differential and allows EAB to focus investment on its business in the District, which results in the hiring of more District Residents.

The summary should delineate which community benefits and amenities are already required by law through the zoning process (e.g., inclusionary zoning, planned-unit-development approval) or regulations (e.g., environmental standards).

- d. The number of affordable housing units to be developed, if any, including:
  - i. Level of Area Median Income (AMI) at which units will be affordable, if applicable; and
  - ii. The projected financial value of the proposed subsidy based upon the difference between the value of a comparable market rate unit and a proposed affordable unit within the same neighborhood, if applicable.

**EAB RESPONSE:** Not applicable.