

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



Natwar M. Gandhi
Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

TO: The Honorable Vincent C. Gray
Mayor, District of Columbia

The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

A handwritten signature in black ink, appearing to read 'ngandhi'.

DATE: February 12, 2013

SUBJECT: "The GALA Hispanic Theatre Real Property Tax Abatement Act of 2013"

REFERENCE: Bill Number 20-55

Findings

The tax abatement proposed by Bill 20-55 is necessary if the District would like the GALA Hispanic Theatre (GALA) to continue serving as a community arts organization in Columbia Heights. If subject to taxation, GALA would face severe pressure on its finances. This finding is based on information submitted to the Office of the Chief Financial Officer's Office of Economic Development Finance (EDF) by GALA management.

GALA rents a portion of a building owned by Tivoli Partners (Landlord). The proposed legislation would abate GALA's share of the building's real property taxes. The legislation includes a rebate for 2011 and 2012 of approximately \$71,000, and an abatement, which is valued at approximately \$2 million over the next 30 years. However, the actual value is greater because the abatement continues indefinitely into the future.

Please refer to the Office of Revenue Analysis' separate Fiscal Impact Statement for the effect of the proposed legislation on the District's FY 2013 through FY 2016 budget and financial plan.¹

¹ The Fiscal Impact Statement was issued for the GALA Hispanic Theatre Real Property Tax Abatement Act of 2012, Bill 19-1038, which is identical in content to the Bill 20-55.

Background

Under current DC Code², nonprofit organizations producing live theatre may file for an administrative categorical exemption for real property they *own*, but GALA cannot receive this because it *leases* space from a for-profit owner.

In 2003, GALA began leasing space³ in the District from the Landlord for its performing arts activities. GALA invested roughly \$4.2 million that it had raised through a fundraising campaign to renovate the site and build out its theatre.

The lease stipulates that beginning in 2011, GALA is obligated to pay the Landlord for its share of real property taxes over and above the 2005 level of taxation of \$6,817 that the Landlord will continue to pay. The Landlord paid GALA’s portion of real property tax payments to the District for tax years 2011 and 2012 of approximately \$71,000, and has now billed GALA for that amount. As per the lease, the Landlord will also bill GALA for its portion of taxes for 2013 and beyond.

The bill proposes to refund the real property taxes paid in 2011 and 2012, and to abate GALA’s share of property tax going forward. Because taxes for 2011 and 2012 have already been paid by the Landlord, the Landlord will receive the rebate and GALA will no longer owe the amount billed by its Landlord.

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the EDF to contain certain information. The required information is included below.

Terms of the Exemption or Abatement

The legislation states that, beginning in FY 2011, GALA shall be exempt from its share of real property taxes above the 2005 level of taxation so long as GALA continues to lease the property and use it for the purpose of producing and staging live theatre performances.

Annual Proposed Value of the Exemption or Abatement

The EDF estimates that the proposed value of the abatement over the next 30 years, through FY 2042, is \$2.1 million. This is inclusive of the two years of retroactive taxes that the Landlord has already paid, and future taxes through 2042. However, the actual value is greater because the abatement continues indefinitely into the future, provided that GALA continues to lease the property.

² D.C. Official Code § 47-1002.

³ The property is located in Lot 2837, Square 0079 at 3333 14th Street, N.W.

The estimated value of the proposed real property tax abatement is:

Estimated Value of Property Tax Abatement for GALA Hispanic Theatre						
	FY 2013	FY 2014	FY 2015	FY 2016	TOTAL FY 2017 - FY 2042	TOTAL FY 2011 - FY 2042
Real Property Tax Abatement	\$43,475	\$44,381	\$45,609	\$46,972	\$1,837,307	\$2,017,744
FY 2011 - FY 2012 Real Property Tax Refund	\$71,707					\$71,707
Total	\$115,182	\$44,381	\$45,609	\$46,972	\$1,837,307	\$2,089,451

Summary of the Proposed Community Benefits

A summary of the proposed community benefits, as provided by GALA, is attached to this analysis as Attachment A.

Financial Analysis for Existing Buildings

- 1. 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 EDF finds that the tax abatement is necessary in order for GALA to operate as a performing arts theatre. When GALA leased its property, it undertook extensive construction which it financed through a fundraising campaign. More recently (and well after construction completion), fundraising has declined significantly and GALA has ended most years with a cash deficit.

GALA’s derives its revenue from ticket sales and rental income, as well as fundraising. GALA’s ticket and rental revenue represents only about a third of its overall revenue. The other two thirds of its revenues comes from fundraising; such donations are typically restricted to use for performance activities and as such, would not be available for general operating costs or replacing reserves. GALA’s level of reserves falls below industry standards and therefore, subjecting the organization to taxation would jeopardize its financial stability.

Attachment A

Community Benefits Supplied by GALA Hispanic Theatre

GALA provides cultural and educational services to low-income Latino and multicultural teens and families in the Columbia Heights neighborhood. In addition, over 25,000 people come through the theater annually. Around 15,000 of these are GALA patrons, and others attend events put on at GALA by other groups, including Young Playwrights’ Theater, In-Series, Dance Institute of Washington, and the DC Commission on the Arts & Humanities. GALA makes its space available to these groups for free or at a minimal rental fee in order to better serve the needs of the community. GALA provides a safe environment year round in which youth can gain skills, learn about theater, and write and perform their own work. Over 50 at-risk youth a year come through our after-school program, which just won the President’s National Youth Arts and Humanities Program Award. GALA’s year round program of theater, dance, poetry, film, and music is accessible across language barriers and across social, economic, and cultural barriers.