

PUBLIC HEARING ON

**“2323 Pennsylvania Avenue Southeast Redevelopment Project Real
Property Limited Tax Abatement Act of 2020,” Bill 23-753**

And

**“800 Kenilworth Avenue Northeast Redevelopment Project Real
Property Limited Tax Abatement Act of 2020,” Bill 23-754**

**Before the
Committee on Business and Economic Development
The Honorable Kenyan McDuffie, Chairman**

Council of the District of Columbia

**September 23, 9:00 a.m.
Virtual Meeting Platform**



**Testimony of Nancy Fox
The Office of Finance and Treasury
Office of the Chief Financial Officer**

**Jeffrey S. DeWitt
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairman McDuffie and Members of the Committee on Business and Economic Development. My name is Nancy Fox. I am a Senior Policy Analyst for Economic Development Finance in the Office of the Chief Financial Officer (OCFO). I am pleased to testify for the OCFO on Bill 23-753, the “2323 Pennsylvania Avenue Southeast Redevelopment Project Real Property Limited Tax Abatement Act of 2020,” and Bill 23-754, the “800 Kenilworth Avenue Northeast Redevelopment Project Real Property Limited Tax Abatement Act of 2020.”

The Bills would extend the existing real property tax abatements on two affordable multifamily housing projects: 2323 Pennsylvania Avenue SE (“the Grays of Pennsylvania”) and 800 Kenilworth Avenue Northeast (“Lotus Square,”) jointly, the “Properties”. The Properties are owned by 2300 Pennsylvania Avenue, LLC, and Kenilworth Avenue Apartments, LLC, respectively.

The Grays of Pennsylvania is a 118-unit affordable housing development with 7,500 square feet of ground floor retail. It is known for tax and assessment purposes as Lot 55 in Square 5560 and is located in Ward 7. The Grays of Pennsylvania was financed in part with an allocation of Low-Income Housing Tax Credits and a \$7.5 million subordinate loan from the District’s Housing Production Trust Fund. The building’s maximum rents are restricted to 60 percent of the Washington DC Median Family Income for 40 years. The Grays of Pennsylvania is currently receiving a real property tax abatement in the amount of its tax liability in excess of \$30,807, the amount of tax liability in year 2009. The existing 10-year abatement will end September 30, 2021.

Lotus Square is a 173-unit affordable housing project, known for tax and assessment purposes as Lot 8 in square 5058 and located in Ward 7. Lotus Square was financed in part with an allocation of Low-Income Housing Tax Credits and its maximum rents are restricted to 60 percent of the Washington DC Median Family Income for 30 years. The existing 10-year abatement on Lotus Square's full real property tax liability will end September 30, 2020.

Both Bills would extend the existing abatements on the Properties and require that rents be deed-restricted in perpetuity to tenants with incomes at or below 80 percent of the Median Family Income. Both Bills provide for an extension of both Properties' existing abatements for an additional 40 or 41 years. Conflicting provisions in both Bills result in uncertainty over the year in which the abatements will terminate. The OCFO recommends clarifying amendments be made to the Bills.

Financial Analysis

The OCFO examined the financial impact that real property tax liability would have on both Properties' capacity to meet their annual financial obligations, which include operating expenses, replacement reserves, and debt service payments on senior debt. Given their current and projected rents and expenses, the OCFO finds that a real property tax abatement is partially necessary for both the Properties, if the District decides to support them. A continued abatement is warranted for The Grays of Pennsylvania, up to a maximum of \$2.5 million total from tax year 2022 through tax year 2045. For Lotus Square, a real property tax abatement up to a maximum total of \$940,000 from tax year 2021 through tax year 2032, with an annual maximum

not to exceed \$149,000 per year, is warranted. OCFO projected the Properties' future year income, net of expenses, based on the Properties' recent financial performance. For both Properties, projected income, net of expenses, can be expected to increase in future years, reducing the need for real property tax relief over time. However, OCFO projections do not consider the impact that potential reductions or efficiencies in operating expenses, debt refinancing, or other measures could have on improving the projected net revenue available to pay taxes and other obligations.

Fiscal Impact

The OCFO estimates the value of the abatement for the Properties. The value of the abatement for The Grays of Pennsylvania is estimated to be approximately \$360,000 during the financial plan period and \$8.7 million through FY2060. For Lotus Square, the estimated value of the abatement is approximately \$768,000 during the financial plan period and \$14.2 million through FY2060. A separate fiscal impact statement will be prepared.

Thank you for the opportunity to testify. This concludes my testimony and I am happy to answer any questions you have at this time.