

PUBLIC HEARING ON

**The Square 5539 Tax Abatement Act of 2021
Bill 24-452**

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

Council of the District of Columbia

**February 22, 12:00 p.m.
Virtual Meeting Platform**



**Testimony of Nancy Fox
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**Dr. Fitzroy Lee
Acting Chief Financial Officer
Government of the District of Columbia**

Good afternoon, Chairman McDuffie and Members of the Committee on Business and Economic Development. My name is Nancy Fox and I am a Senior Policy Analyst in the Office of Finance and Treasury in the Office of the Chief Financial Officer (OCFO). I am pleased to testify for the OCFO on Bill 24-452, the “Square 5539 Tax Abatement Act of 2021” (the “Bill”).

The Property is located in Ward 7, at the northeast corner of Pennsylvania Avenue and Branch Avenue with the address of 3200 Pennsylvania Avenue, SE. The Property is known for tax and assessment purposes as Lots 835 and 840 in Square 5339.

The Applicant, Jair Lynch Real Estate Partners, is proposing to develop 188 units of multifamily rental housing on the Property. The Property is an undeveloped parcel that is currently used as additional surface parking for the Shops at Penn Branch, a neighborhood commercial center owned by the Applicant. Of the 188 units of housing proposed by the Applicant, about 19 units will be affordable to households earning at or below 60 percent of the Median Family Income (MFI), in fulfillment of the District’s Inclusionary Zoning requirements. The remaining units, approximately 169, will be affordable to households earning at or below 80 percent of MFI. Maintaining the affordability level of these 169 units is a requirement of the Applicant’s mezzanine financing. The project is expected to start construction by the end of calendar year 2022 and be completed in 2024.

The Bill would provide an annual abatement amount capped at \$500,000 for the first year, escalated by 3 percent annually for a term of 40 years. This abatement is subject to the following conditions: (i) a 40-year recorded covenant stipulating that units be affordable to households earning an average of 80 percent MFI (with none earning more than 100 percent MFI); and (ii) a Certified Business Enterprise utilization requirement of 35 percent during construction and operation. The affordability condition in the proposed legislation is less restrictive than what has been proposed for the Property's development.

Financial Analysis

The OCFO examined the impact on the Applicant's ability to finance and deliver the 188 affordable units if the tax abatement is not granted, using information provided by the Applicant.

The Applicant has obtained a mezzanine loan for this project that provides a favorable interest rate and reduces the amount of equity needed to fund the project in return for the affordable housing restrictions mentioned previously. The OCFO's analysis finds that this financing structure does not completely eliminate the financing gap for this project. Based on the analysis of the information provided, the OCFO finds that a partial tax abatement is financially necessary for this project to move forward with the proposed financing. Given the estimated real property tax liability, a real property annual tax abatement of \$362,000 for the first year, escalated by 3 percent annually over 40 years, would increase the project's cash flow and enhance the internal rate of return (IRR) on the equity investment without over subsidizing the project.

Fiscal Impact

The OCFO reviewed the financial statements and calculates the estimated value of the tax exemption as proposed by the Bill to be a total of \$29.8 million through the financial plan extending through FY2025.

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