PUBLIC HEARING ON

Volunteers of America, Inc. National Service Center Relocation Tax Exemption Amendment Act of 2022, Bill 24-0930

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

Council of the District of Columbia

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Testimony of

Rick Liu
Senior Policy Analyst
Economic Development Finance
The Office of Finance and Treasury

Glen M. Lee
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairman McDuffie and Members of the Committee on Business and Economic Development. I am Rick Liu, a Senior Policy Analyst in the Office of Finance and Treasury, Office of the Chief Financial Officer (OCFO). I am pleased to testify for the OCFO on Bill 24-0930, the "Volunteers of America, Inc. National Service Center Relocation Tax Exemption Amendment Act of 2022" (the "Bill").

The Bill would provide a real property tax exemption to 38,000 square feet of office space, hereafter referred to as the "Premises", to be constructed at 100 Potomac Avenue, SW, that will be occupied by and serve as the national headquarters of Volunteers of America, Inc. and its affiliates (further referred to as the "Applicant"). The building, expected to be completed in 2026, will be constructed on land currently known for tax and assessment purposes as Square 0665 Lot 0027. The Premises will be housed within a mixed-use building that would also include approximately 111 senior affordable housing units, 345 apartment units and ground floor retail. The affordable senior housing units will be owned and operated by a wholly-owned affiliate of the Applicant. However, the Applicant itself will have condominium ownership of the Premises. The Applicant anticipates occupying the Premises, which will replace their current headquarters in Alexandria, Virginia, in April 2026. The Bill would exempt the Premises only and would apply beginning October 1, 2026 (tax year 2027).

Financial Analysis

The OCFO reviewed the Applicant's audited, consolidated financial statements from 2018 to 2021 as well as forecasted revenues and expenses prepared by the Applicant, from 2022 to 2028. The Applicant also included a pro-forma displaying future financials if the exemption was granted or not granted, a purchase and sale agreement for the Premises, and other collateral and information about its operations.

The Applicant intends to finance $17 million of the purchase cost of the Premises and has highlighted the likely need to adhere to a financing requirement requiring the Applicant's annual net revenues, before debt service, to be at least 20 percent greater than its annual debt service (otherwise known in financial terms as a "debt service coverage ratio," or DSCR, of 1.2). To determine the financial necessity of this exemption, OCFO considered alternate financing options available to the Applicant, in accordance with D.C. Official Code § 47-4701(b)(1)(E). The Applicant could finance a smaller portion of the purchase and use other funding sources at its disposal. Through a review of the provided pro-forma it was determined that the 1.2 DSCR could be attained by FY2028 if the financed amount is reduced to approximately $13.85 million, and the amount paid from other sources increased by approximately $3.15 million. Based on current projections, the DSCR would not be reached in FY2027, the first year of the exemption, but it is to be noted that the Applicant's net revenues would be insufficient in FY2027 to cover the 1.2 DSCR with the full exemption. Given the level of long-term investments identified on the Applicant's financial statements and the non-restricted nature in which they can be used, an additional liquidation of approximately $3.15 million in assets would be financially feasible for the organization. Therefore, the Applicant's resources are strong enough to fund this additional need for capital without a tax exemption. For these reasons, OCFO finds that the exemption provided in the Bill is not necessary for the Applicant to meet its fiscal needs.

Fiscal Impact

While a separate fiscal impact statement will be prepared, the estimated value of the abatement from FY2027 through FY2047 for purposes of the TAFA totals approximately $8.9 million. The costs of the abatement occur outside the financial plan period, starting in fiscal year 2027. As currently written, the Bill would exempt the Applicant from real property taxes on the Premises for as long as it met criteria detailed in the Bill.

Recommended Amendments

As currently drafted, the Bill provides that the Applicant is to certify directly to the Office of Tax and Revenue (OTR) that the various requirements for receiving the exemption are met. These requirements involve a number of non-tax employment, contracting and community service obligations that are not matters with which OTR generally deals. Bills conditioning tax relief on such criteria typically provide that the recipient of the tax relief certifies compliance with these requirements to an executive agency which, in turn, certifies compliance to OTR; OTR then implements the tax relief based on the executive agency certification. This procedure has worked effecitvely for other tax relief laws, and we recommend that it also be used for this exemption as well. We would be pleased to assist in drafting the necessary amendments to implement this recommendation.

Furthermore, as currently written the Bill exempts the Applicant from real property taxes on the Premises for as long as it meets criteria detailed in the Bill; we recommend that its terms be changed to a period no longer than the financing term of the Premises.

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