

PUBLIC HEARING ON

Bill 20-54

**Jubilee Housing Residential Rental Project Property tax
Exemption and Equitable Real Property Tax Relief Act of 2013**

**Before the
Committee on Finance and Revenue
Council of the District of Columbia
Councilmember Jack Evans, Chairman**

March 11, 2013

10:00 AM

John A. Wilson Building, Room 120



**Testimony of
John Ross
Senior Advisor to the Chief Financial Officer
For Economic Development Finance**

**Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am John Ross, Senior Advisor to the Chief Financial Officer for Economic Development Finance. I am pleased to testify today on behalf of the CFO on the Bill 20-54, the “Jubilee Housing Residential Rental Project Property tax Exemption and Equitable Real Property Tax Relief Act of 2013.”

The proposed legislation would exempt the properties described as Lots 62, 63 and 809 in Square 2576, and Lot 818 in Square 2566¹ (together, the Properties) from real property taxes beginning on October 1, 2012. The exemption would remain in place, provided the Properties are owned by Jubilee, Inc. or its for-profit subsidiary and comply with the low-income housing tax credit restrictions.

Jubilee, Inc. (a nonprofit entity) has owned the Properties for over 30 years. During this time, Jubilee, Inc. rented its units at below-market rates and the Properties were tax exempt. In 2005, Jubilee, Inc. decided to rehabilitate the Properties using a variety of financing sources, including Low-Income Housing Tax Credit (LIHTC) equity. The Internal Revenue Service requires

¹ The draft legislation improperly identifies Lot 63 in Square 2576 as Lot 65 in Square 2576 and Lot 818 in Square 2566 as Lot 818 in Square 2536. EDF expects this to be corrected at mark-up.

the involvement of a for-profit entity to take advantage of the federal LIHTC program. As a result, Jubilee, Inc. sold the Properties to Jubilee Housing, LP (Jubilee, LP). At the time of the sale in 2005, the Properties became subject to real property taxes.

The Properties were redeveloped over a four-year period from 2005 through 2009. The properties contain 118 affordable rental units, 3 after-school programs and a computer lab. Total redevelopment costs were approximately \$24 million. These costs were financed through a combination of 9% LIHTC equity, Department of Housing and Community Development (DHCD) loans, numerous grants, Jubilee-affiliate loans and deferred developer fees. Based on the use of LIHTC and DHCD loans, the rents on the units are set by deed restrictions on the Properties. However, the proportion of units with rents below 30% of Area Median Income is actually higher than that required by the restrictions.

Jubilee, Inc. provided the Office of Economic Development Finance (EDF) with property financial statements and future projected cash flows. The sources of funds used to rehabilitate the Properties do not include any traditional debt or equity. Jubilee, LP faces restricted income potential due

to the affordability provisions and does not generate sufficient cash flow from operations to make payments on its loans and pay annual real property taxes. The annual real estate taxes paid by the Properties in previous years have resulted in Jubilee, LP deferring interest on its various loans. EDF estimates that in the absence of a real property tax exemption, cash flow generated by operations would be insufficient to pay the majority of the deferred developer fee or to repay Jubilee, LP's subordinated cash flow loans prior to their expected maturities.

Assuming the Property complies with the deed restrictions until 2046, the total abatement is estimated to equal approximately \$6.55 million. The bill is retroactive only to October 1, 2012, so past taxes paid before this time would not be refunded. The Office of Revenue Analysis is currently working on the fiscal impact analysis.

Note

The Nonprofit Affordable Housing Development Tax Relief Act of 2012² that was passed by the Council in 2012 provides a real property tax exemption for properties that provide low-income housing and are owned by

² Enacted as part of the Fiscal Year 2013 Budget Support Act of 2012, effective September 20, 2012 (D.C. Law 19-168; 59 DCR 8025).

an organization that is not organized or operated for private gain, or are owned by an entity controlled, directly or indirectly, by such an organization. It is EDF's understanding that this act applies only to properties that begin using low-income housing tax credits after October 1, 2012. Because the Properties outlined in the proposed legislation became subject to LIHTC affordability restrictions prior to October 1, 2012, the Nonprofit Affordable Housing Development Tax Relief Act of 2012 does not apply.

I would also like to note that the OCFO provided a Tax Abatement Financial Analysis (TAFAs) on this bill when it was introduced during the last Council session. The TAFAs can be found by looking up Bill 19-1009.

Thank you for the opportunity to testify. I am happy to answer any questions at this time.