

PUBLIC HEARING ON

**“900 55th Street NE and 2327-2341 Skyland Terrace SE DC
Habitat Real Property Tax Exemption Extension of 2021,”
Bill 24-579**

**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 the 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 24-579, the “900 55th Street NE and 2327-2341 Skyland Terrace SE DC Habitat Real Property Tax Exemption Extension of 2021” (the “Bill”). The Bill would exempt certain properties in the Skyland and Deanwood neighborhoods from property tax, penalties, and interest from the beginning of calendar year 2021 to the end of calendar year 2024. The project will use this exemption to build 25 new affordable townhomes for low to moderate income families in Ward 7.

Habitat for Humanity DC-NOVA (“DC Habitat”), a nonprofit organization, owns the properties. The properties at 2327 through 2341 Skyland Terrace, SE (the “Skyland Properties”) are known for tax and assessment purposes as Lots 241 and 350 through 356 in Square 5740. The property, located at 900 55th Street, NE (the “Deanwood Property”) is known for tax and assessment purposes as Lot 22 in Square 5204.

The Skyland Properties were purchased from the District in 2016 at a reduced cost in order to deliver eight affordable, for-sale townhomes. Per a property disposition agreement, these units must be affordable to families earning 60% of the Median Family Income. These properties had a previous tax exemption between 2018 and 2021 to reduce costs during their construction and sale period. However, due to the COVID-19 pandemic, construction of these units has been delayed. DC Habitat is now ready to break ground on these units and expects them to be constructed and sold in 18 months, around mid-to-late Fiscal Year 2023. Per the Bill, the

exemptions would be terminated once DC Habitat no longer owns the Skyland properties.

The Deanwood Property was purchased in 2018 from a private owner. C Habitat plans to demolish the single-family house currently on the property and replace it with 17 new for-sale, townhomes made affordable for families earning an average of 60% of the Median Family Income, even though it is not a requirement. Because construction of these units is contingent on the sale of the eight units on the Skyland Property, development of the 17 units is expected to begin in Fiscal Year 2023 and be completed and sold by the third quarter of Fiscal Year 2025. As the viability of the Deanwood Property depends on the proceeds from the Skyland Property, OCFO regards these projects as linked in terms of the financial necessity of the tax exemption.

The Deanwood Property has an outstanding tax liability from prior to Fiscal Year 2021 and expects its construction and settlement period to extend beyond the period stated in the Bill. DC Habitat has requested that the District consider amending the Bill to include forgiveness of all back taxes for 900 5th Street NE, as well as extending the exemption period an additional six months to June 31, 2025, when final units will be sold.

Financial Analysis

The OCFO examined the impact on DC Habitat if the legislatively proposed exemptions are not granted. Based on a review of the financial information provided to the OCFO, DC Habitat will build these homes to be sold at prices below their development cost and the funding gap will be filled through fundraising and DC Habitat's internal resources. DC Habitat will not take a

developer's fee or a return on equity from either of these projects. If property taxes were assessed on these properties, DC Habitat would need to do one or more of the following: (i) increase the price of the 17 townhomes at the Deanwood Property to recoup property tax payments, once sales proceeds are available to retroactively pay the taxes, penalties, and interest; (ii) fundraise to close the gap; and/or (iii) draw from their cash reserves.

OCFO's review of the DC Habitat's Income and Expense statements reveals that DC Habitat has been operating at a loss in both 2020 and 2021, and the estimated property tax liability would represent a relatively large share of their cash reserves. Given the financial condition of the DC Habitat, the OCFO finds it is unlikely that the projects could advance as planned without the Bill's proposed tax exemption, nor without the full retroactive exemption and extended exemption period proposed by DC Habitat. However, because this assumes all housing units will be sold at specific affordability levels, the Bill should be amended to specify an affordability threshold at an average of 60% of the Median Family Income for the Deanwood Property units.

Fiscal Impact

The Office of Finance and Treasury of the OCFO calculates the estimated value of the tax exemption, as proposed by the Bill, to be \$51,324; under DC Habitat's requested terms the value of the tax exemption would be \$79,060. A fiscal impact statement will be prepared separately for the Bill.

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