

Franklin School Real Property Tax Exemption Amendment Act of 2018, Bill 22-764

Before the Committee on Finance and Revenue

The Honorable Jack Evans, Chairman

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Room 120, John A. Wilson Building**



**Testimony of
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Good morning Chairman Evans and members of the Committee on Finance and Revenue. My name is Wharton H. Berger, I am the Executive Director of the Office of Economic Development Finance for the Office of the Chief Financial Officer (“OCFO”). I am pleased to present testimony on Bill 22-764, the “Franklin School Real Property Tax Exemption Amendment Act of 2018.”

In general, the Bill would exempt possessory interests in the Franklin School property, as well as the real property, from taxation for the period December 15, 2017, when the property was leased by the District to Franklin School Development LLC (“the Developer”), until December 31, 2020, by which time it is expected that the redevelopment of the property into a museum of language arts will be completed. Franklin School Development LLC, a for profit entity subject to District taxes solely owned and managed by ABooks LLC, a Delaware corporation, intends to spend \$25 million to renovate the Franklin School property and another \$15 million to build out the museum’s exhibits. Given that the proposed total \$40 million redevelopment and build out cost of the museum, which will be free to the public, depends substantially upon philanthropic efforts by the Developer, determination of the proposed exemption is inconclusive. The exemption is contingent on the use of the property for the purposes permitted under the lease, including the development of the museum, and ancillary uses, including development of a restaurant, café and

retail shop. The Bill would also exempt conveyances of interests in the property during that period from transfer and recordation tax. This exemption would entail a refund of the recordation tax paid on the recording of the Franklin School Development LLC's lease of the property.

The Bill is expected to provide tax relief during the redevelopment and build out phases of the project. Franklin School Development LLC is a privately-controlled limited liability company that is not eligible to receive an administrative exemption under District law. At the conclusion of the museum redevelopment and build out phases, we understand that the leasehold interest will be transferred by the Developer to a District nonprofit entity, Museum of Language Arts d/b/a Planet Word, which will operate the museum. This entity will then be able to apply for an administrative exemption from the possessory interest tax under the usual procedures. The Bill would provide an exemption from transfer and recordation tax that would be due on the conveyance of the lease from the privately-controlled limited liability company to the nonprofit, provided that the transfer occurs by December 31, 2020.

Considering the philanthropic efforts by the Developer associated with the creation and operation of the museum, which will be free to the public, the determination of

whether or not the proposed exemption is required in order to develop Planet Word, is inconclusive as it is unclear whether or not the Developer would contribute additional amounts to fund the tax or the construction project could be curtailed by an amount sufficient to absorb the tax.

Thank you, Chairman Evans, for the opportunity to comment on this Bill. I would be happy to answer any questions at this time.