

Government of the District of Columbia
Office of the Chief Financial Officer



Jeffrey S. DeWitt
Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

TO: **The Honorable Muriel Bowser**
Mayor, District of Columbia

The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: **Jeffrey S. DeWitt** *Jeffrey S. DeWitt*
Chief Financial Officer

DATE: **July 20, 2017**

SUBJECT: **“Africare Real Property Tax Relief Act of 2017”**

REFERENCE: **Bill Number 22-147**

Findings

While Africare is experiencing financial hardship, as total net assets were in deficit for 2016, the real property tax relief proposed by Bill 22-147 is not necessary. Given the corrective organizational and business development measures currently being undertaken to stabilize its operating revenues and expenses, Africare is reasonably expected to meet its fiscal needs without the proposed exemption.

Background

The proposed legislation would exempt the real property of Africare, located at Lots 805, 806, 808, 816, and 817 in Square 509, from real property taxation. This property consists of a building known as the Africare House, along with the surrounding grounds, and surface, unpaved parking lots. Africare House is located in the Shaw Historic District in the former Morse Elementary School building that was built in 1882, purchased by Africare in 1981 with renovations completed in 1987. Africare is a nonprofit corporation, headquartered in Washington D.C. (District) that is “committed to addressing African development and policy by working in partnership with African people to build sustainable, healthy and productive communities”. Africare is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. As a result, it receives the exemptions from District income, personal property and sales tax customarily accorded such organizations. The proposed legislation would therefore only impact the real property tax assessed against Africare’s real property.

The Africare House and the surface, unpaved parking lots in Square 509 were exempted from District real property tax by the Office of Tax and Revenue (OTR) in a letter dated May 26, 1988. Based on a review of Africare’s activities of providing administrative and program support for relief, health and development performed in Africa, as well as developments in the law occurring after the exemption was originally granted, OTR determined that Africare did not meet the applicable requirements for exemption. As a result, OTR revoked Africare’s property tax exemption, effective April 1, 2013.

In addition to exempting the property from tax going forward, the proposed legislation would also forgive and order the refund of any payments made by Africare for real property taxes, penalties, fees, interest, and other related charges resulting from the revocation of the exemption beginning with tax year 2014 (October 1, 2013).

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011, as amended,¹ requires the analysis provided by the Office of the Economic Development Finance (EDF) to contain certain information. The required information is included below.

A separate fiscal impact statement will be prepared on the proposed legislation.

Terms of the Exemption or Abatement

The proposed legislation exempts Africare’s land and buildings from real property taxation in perpetuity, so long as the real property is owned by Africare, or a subsidiary of Africare, is used for the purposes and activities of Africare, and is not used for any commercial purpose.

Annual Proposed Value of the Exemption or Abatement

If the proposed legislation becomes law, Africare would be entitled to a refund of approximately \$293,735 for real property taxes, penalties, interest and fees paid, net of credits received through tax year 2016.² Additionally, for tax year 2017, a total of \$108,057 in taxes consisting of \$99,069 in real property taxes and an \$8,988 Income & Expense Non-Filer fee would be forgiven. EDF estimates the total value of the refunds and exemptions to be \$4.2 million over a 25-year period (see chart below). Although the total was calculated over a 25-year period, the exemption would remain in place as long as the ownership and use requirements are met.

¹ Fiscal Year 2012 Budget Support Act of 2011, § 7142, effective Sept. 14, 2011 (D.C. Law 19-21; D.C. Code 47-4701).

² The proposed legislation stipulates refunding “all real property taxes, interest, penalties, fees, and other related charges assessed against the Property beginning with the tax year beginning October 1, 2013 through the end of the month following the effective date of the act”. However, the effective date for the revocation of the exemption was April 1, 2013. In order to provide full relief to Africare, the proposed legislation would need to be amended.

Estimated Value of Real Property Tax Exemption for Africare								
	<u>FY 2014-</u> <u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY2022-</u> <u>FY2043</u>	<u>TOTAL</u>
Real Property Tax Exemption Amount	\$284,183	\$99,069	\$101,448	\$102,868	\$104,617	\$106,395	\$3,342,316	\$4,140,897
Penalties, Interest and Fess Adjusted For Credits	\$9,552	\$8,988						\$18,540
Total	\$293,735	\$108,057	\$101,448	\$102,868	\$104,617	106,395	\$3,342,316	\$4,159,437

Summary of the Proposed Community Benefits

A summary of the proposed community benefits as submitted by Africare is attached to this analysis (see Attachment A).

Financial Analysis for Existing Buildings

Review and Analysis of the Financial Condition of the Recipient of the Proposed Exemption and Whether Recipient Could Be Reasonably Expected to Meet Its Fiscal Needs without the Proposed Exemption

Africare provided EDF with its annual financial statements from 2013 through 2016 and stated that property tax expenses are included in "Other Expenses"³. Africare is a not-for-profit international NGO, and primarily derives revenue from U.S. and foreign government grants, contributions, donated goods and services, and special events. Africare’s annual financial statements show operating losses in each of these years ranging from \$1.4-\$3.1 million, and it ended 2016 with negative net assets. This data indicates the organization cannot continue operating under its current business model.

Africare Financial Statement Activities 2013-2016				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Revenues	\$34,722,673	\$48,610,710	\$53,879,574	\$60,905,960
Total Expenses	\$36,142,401	\$51,699,643	\$56,060,012	\$62,733,731
Total Revenues less Expenses (Deficit)	(\$1,419,728)	(\$3,088,933)	(\$2,180,438)	(\$1,827,771)
Total Net Assets	(\$1,559,850)	\$2,044,126	\$6,536,863	\$7,369,724
Property Taxes	\$90,823	\$102,454	\$100,458	\$52,986
Property Taxes as % of Total Expenses	0.3%	0.2%	0.2%	0.1%

Africare staff described a variety of factors⁴ as contributing to its decline in operating revenues. It noted the firm is setting out to address a number of organizational challenges, business

³ Statement of Functional Expenses, Exhibit C in its financial statements.

⁴ Africare stated the first factor is the nature of Africare’s work which is primarily project-based. Funding rises and falls with the life cycle of a project as the phasing out of a project would be accompanied by a reduction of project staff and expenses. A number of significant development assistance projects came to the

development and fundraising chief among them. These efforts are intended to turn around the organization’s financial situation. Whether or not these efforts are successful, the obligation to pay real property tax (approximately 0.3% of Total Expenses) is unlikely to be a critical factor in its ability to operate.

While it is difficult to conduct a financial analysis of an organization in the midst of changing its funding and business model, EDF analyzed the financial information Africare provided, and concludes the payment of real property taxes is unlikely to be a critical factor in its operations and the organization can reasonably be expected to meet its fiscal needs without the proposed real property tax exemption and refund.

Assuming Africare management continues to stabilize its operating revenues and expenses in order to continue its mission of “improving the quality of life of the people of Africa”, the organization is likely to be in a financial position to pay its ongoing real property tax obligations.

end of their life cycle in the past few years, and Africare has not replaced those projects with similar sized awards. Second, Africare has exited projects in some geographical locations. Third, some significant funders, such as the Children’s Investment Fund Foundation, have reduced investments across the board because of a split in its leadership. Fourth, some agencies of the Federal Government have altered the way procurements are now issued with financial qualification and response requirements a medium-sized NGO like Africare is unable to meet. Finally, in the last few years, Africare staff stated there has been a heavier emphasis within the Federal Government on in-country, or local, funding of NGOs, making it more difficult for a NGO like Africare to be as competitive as they once were.

Africare reiterated the trends in the international development space are faced by all NGOs but the situation at Africare was further exacerbated by a number of management and organizational changes. Africare asserts management and staffing changes are now complete, and the firm is setting out to address a number of organizational challenges, business development and fundraising chief among them.

ATTACHMENT A

Summary of Community Benefits as Submitted by Africare

Africare believes that maintaining its global headquarters in DC is of benefit to the Washington, D.C. as an international city. Mayor Bowser has enhanced the office that deals with federal and international affairs and opened a Mayor's Office on African Affairs (MOAA). According to the Mayor's website (<https://oaa.dc.gov/page/facts-district%E2%80%99s-african-community>)

The District's African community counts to approximately 16,000 African-born residents (17% of the District's entire immigrant population) which is the highest proportion of African- born residents of any major city in the United States. As the newest and fastest growing immigrant group, the community partakes in and contributes to the cultural and economic fabric of the local and national community. Contributions also extend to international realms, impacting the economies of Africa through remittances. In 2010, African migrant remittance inflows to Africa reached nearly \$40 billion.

The Mayor's website further states,

Washington, DC stands out as a preferred destination for Ethiopians, who account for almost one of every five black African immigrants. The West African countries of Nigeria, Sierra Leone, Ghana, and Cameroon follow. These countries, together with Liberia, Somalia, Guinea, Sudan, and Eritrea complete the top 10 sending countries that account for three-quarters of Since its founding by Africans and African-Americans, Africare as an *organization* and *Africare House as a meeting site* have been the locus of bringing these communities together. In addition to having hosted regular Advisory Neighborhood Commission meetings, receptions for South African President Nelson Mandela and other African Presidents, diplomats and dignitaries in the past, Africare House continues to be a favorite convening place for current diplomats and Africa-focused events. Africare makes Africare House available free or at a *de minimus* charge to African diplomats, Africa-focused local NGOs and others.

Since its founding by Africans and African-Americans, Africare as an *organization* and *Africare House as a meeting site* have been the locus of bringing these communities together. In addition to having hosted regular Advisory Neighborhood Commission meetings, receptions for South African President Nelson Mandela and other African Presidents, diplomats and dignitaries in the past, Africare House continues to be a favorite convening place for current diplomats and Africa-focused events. Africare makes Africare House available free or at a *de minimus* charge to African diplomats, Africa-focused local NGOs and others.

In addition, it is Africare's express mission (one that the change in legislation penalizes) to relieve poverty in the very countries from which DC's growing African immigrant population hail and to which they make their remittances. We carry out this mission often at the behest of and with the financial support of the federal government through congressional appropriations for international development.