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

Fitzroy Lee
Acting 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:	**Fitzroy Lee** **Acting Chief Financial Officer**
DATE:	**February 18, 2022**
SUBJECT:	**"900 55th Street NE and 2327-2341 Skyland Terrace SE DC Habitat Real Property Tax Exemption Extension of 2021"**
REFERENCE:	**D.C. Bill 24-0579**

Findings

In general, D.C. Bill 24-0579 (the Bill) would provide a real property tax exemption for multiple properties located at 900 55th St. NE ("Deanwood Property") and 2327-2341 Skyland Terrace SE ("Skyland Properties") from the beginning of calendar year 2021 to the end of calendar year 2024. As for-sale, single family dwellings are expected to be built and sold on the properties, the tax exemption will end immediately once dwellings are sold to new residents. The proposed tax exemption would support in the development of 25 affordable for-sale, single family townhomes of approximately 1,500 square feet each in Wards 7 and 8.

Based on an analysis of the financial projections provided by the applicant, the Office of the Chief Financial Officer (OCFO) finds that the exemption of real property taxes is financially necessary for the project to proceed, if the townhomes are to meet their below-market sale price target. Habitat for Humanity of Washington, DC (the Applicant or DC Habitat) intends to sell the townhomes below the development cost, and any additional costs during construction would add to the amount that the Applicant needs to provide from its own resources or additional fundraising. Given the financial condition of the applicant, it would be a financial hardship to deliver the townhomes without the retroactive and prospective exemption or without increasing the sale price of the townhomes to reflect the increased costs.

The Applicant has submitted a request to amend the Bill which would provide a full exemption retroactively to FY 2018 for the Deanwood Property, and prospectively for both properties to June 31, 2025. This expansion of the proposed exemption is also financially necessary, as the full tax liability to the Applicant is a financial hardship that would prevent the project from proceeding as described.

The units are intended to be affordable to buyers with incomes at or below 60% of Area Median Family Income (MFI). The proposed legislation should specify this affordability level that the townhomes must meet, so that the exemption achieves its intended purpose.

Please refer to the separate Fiscal Impact Statement for the effect of the Bill on the District's financial plan.

Background

The Applicant, a non-profit entity, is seeking a real property tax exemption for properties associated with two projects from 2021 to 2025. The properties exempted are 900 55 St. NE (Square 5204, Lot 0022, the "Deanwood Property") in Ward 7 and 2327-2341 Skyland Terrace SE (Square 5740, Lots, 241, 350-356, "the Skyland Properties") in Ward 8. DC Habitat is about to break ground on eight (8) new townhomes on the Skyland Properties – which is a continuation of a previous 34-townhome project they completed in 1995 – and plan to build 17 new townhomes on the Deanwood Property. As part of DC Habitat's mission of serving families in need by building affordable housing, these homes will be for-sale, single family townhouse dwellings that will be affordable to homeowners earning on average around 60% of Median Family Income (MFI). This affordability level is a desired target for the 17 units on the Deanwood Property, and a requirement for the 8 units on the Skyland Properties per a property disposition agreement with the District.

The Bill proposes providing a tax exemption period for the two properties from January 1, 2021 to December 31, 2024 (the exemption would be retroactive back to the beginning of calendar year 2021). Previously, the Skyland Properties had a full exemption between FY 2018 to FY 2021 to reduce costs during the construction and sale period of the affordable homes. Due to the COVID-19 pandemic, construction on the 8 units on the Skyland Properties have been significantly delayed due to homebuyer difficulties and financing constraints, prolonging DC Habitat's ownership of the property until homes can be built and sold. Additionally, construction of the 17 townhomes on the Deanwood Property is contingent on the sale of the 8 units on the Skyland Properties. Thus, the two projects are linked together with regard to the financial necessity of the tax exemption. The exemptions will be extinguished as units are sold and ownership is transferred, which is expected to occur throughout the exemption period.

While the Bill proposes a tax exemption period between January 1, 2021 to December 31, 2024, the Applicant has submitted two additional requests: The first is to forgive taxes incurred for the Deanwood Property prior to 2021 (there is outstanding property tax liability from FY 2018 – FY 2020). The second is extending the exemption period for both properties to June 31, 2025. While not part of the Bill, this analysis considers the Applicant's request as well.

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the OCFO to contain certain information. The required information is included below.

(A) Terms of the Exemption

The Bill would provide exemption from, and forgiveness of, real property taxes, interest, penalties, and fees related to the properties from January 1, 2021 through December 31, 2024 (in Tax Year 2025). The Applicant request provides the same exemption terms but includes full forgiveness prior to January 1, 2021 for the Deanwood Property (there are tax liabilities beginning in FY 2018) and extends the exemption period for both properties an additional six months to June 31, 2025.

Receipt of the proposed exemption is conditioned upon meeting the requirements during the term of the exemption:

1. The Properties continue to be owned by DC Habitat (i.e. dwelling units are no longer eligible once sold to a resident)
2. The Properties are used to produce 25 affordable for-sale homes.

(B) Value of the Exemption

As shown in Table 1, the value of the proposed exemption as provided by the Bill, is estimated to be a maximum of $51,324 over the 4-year period from January 1, 2021 to December 31, 2024. This estimate reflects a demolition of existing property in FY 2023 and Skyland Properties' units being sold in FY 2023, since the tax exemption is extinguished once ownership is transferred.

Table 1: Estimated Value of the Proposed Tax Exemption in Bill 24-0579

Exemption of Real Property Tax, Penalties, and Interest	Prior to FY 2022 (FY20 & FY21)	FY 2022	FY 2023	FY 2024	FY 2025 (Oct-Dec 2024)	Total Value
Deanwood Property (Square 5204, Lot 0022)	$9,735	$11,362	$11,703	$4,083	$1,058	$37,940
Skyland Properties (Square 5740, Lot 241, Lots 350-356)	$0	$8,834	$4,550	$0	$0	$13,384
Total	$9,735	$20,196	$16,252	$4,083	$1,058	**$51,324**

The value of the proposed exemption as proposed by the Applicant, is estimated to be a maximum of $79,060 in Table 2. In addition to the estimate derived in Table 1, this estimate includes all additional retroactive property taxes, penalties, and fees prior to FY2021, as well as the 900 55th St. NE units being built and sold in FY2025.

Table 2: Estimated Value of the Proposed Tax Exemption in Applicant Request

Exemption of Real Property Tax, Penalties, and Interest	Prior to FY 2022 (FY2018 - FY2021)	FY 2022	FY 2023	FY 2024	FY 2025 (through June 2025)	Total Value
Deanwood Property (Square 5204, Lot 0022)	$36,103	$11,362	$11,703	$4,083	$2,426	$65,677
Skyland Properties (Square 5740, Lot 241, Lots 350-356)	$0	$8,834	$4,550	$0	$0	$13,384
Total	$36,103	$20,196	$16,252	$4,083	$2,426	**$79,060**

(C) Purpose of the Exemption

According to the Applicant, the purpose of the exemption is to address the delays faced in constructing and completing the projects, and thereby reduce the development costs of the project.

(D) Summary of the Proposed Community Benefits

The applicant's summary of community benefits is attached in Attachment A.

(E) Financial Analysis and Advisory Opinion

The OCFO's Office of Finance and Treasury (OFT) evaluated the Applicant's 2020 and 2021 audited financial statements. The Applicant also provided information on how their housing projects are funded and financed, which is different than a conventional developer.

DC Habitat builds homes to be sold at prices below their development cost. This funding gap is filled through favorable financing, tax credits, and grants or contributions from various donors such as corporations, foundations and individuals. DC Habitat does not take a developer fee or a return on equity in its real estate projects. Organizational costs, such as staff expenses, are also largely funded by donor contributions and grants which vary from year to year.

The Applicant's proposed financing for construction on the Skyland and Deanwood Properties includes New Market Tax Credit Financing, other secondary financing sources for construction, and fundraising from donors. Financing sources for the project on the Deanwood Property are not yet secured or finalized but are expected to be similar to that on the Skyland Properties.

The Bill's estimated liability for property taxes, interest, penalties, and fees during its tax exemption period is $51,324. In the Applicant's request, the estimated liability is $79,060, which includes all back taxes for the property plus liabilities from an extended term. As it currently stands, without a tax exemption, the Applicant will be responsible for a tax liability of approximately $47,500 in FY 2022 – which is the sum of its back taxes, its FY2022 tax assessment, and $16,000 in FY 2023, with smaller amounts in FY2024 and FY2025.

According to the Applicant, the inclusion of real property taxes during the construction and sale period of these two projects, as prolonged by the COVID-19 pandemic, was not originally contemplated or budgeted when they began the projects back in 2018. Since unit affordability levels are a target rather than a requirement, the additional costs could be recouped by increasing the price of the 17 units at the Deanwood Property by an average of $4,650 each. However, the sales proceeds would not be available to pay the taxes until these townhomes were sold in FY 2025. The Applicant would either have to continue to pay penalties and interest on the tax liability until they could be paid with sales proceeds, further increasing the sales price, or would need to dedicate additional fundraising or internal resources to pay the additional costs until they are reimbursed.

However, if townhome sales prices are held firm at an amount affordable, around 60% MFI (the applicant is targeting a price per unit of $360,000), any amount of property taxes paid will need to be raised from additional donor contributions or directly from DC Habitat's internal resources.

Income and expense statements show that the Applicant has been operating at a loss, for both 2020 and 2021. Additionally, property taxes represent a relatively large portion of the organization's internal resources and fundraising capacity. The FY 2022 payment represents about 19% of its 2021 unrestricted Cash and Cash equivalents, the source from which the funds would most likely be diverted. Given the Applicant's budget deficit and the likelihood that these funds were programmed for other activities, it would likely compromise the ability of the Applicant to deliver the projects as planned. Therefore, the Applicant cannot reasonably be expected to meet the financial requirements to deliver the 25 affordable units without the proposed retroactive and prospective exemption.

Conclusion

The Bill proposes retroactive forgiveness and prospective abatement of real property taxes, interest, penalties, and fees between January 1, 2021 to December 31, 2024 for the construction and sale of 25 affordable townhomes to be built through two projects in Wards 7 and 8. If the projects are to maintain the targeted affordability level of 60% of MFI, the Bill's proposed tax relief, for the properties designated as Square 5204, Lot 0022, and Square 5740, Lot 241 and Lots 350-356, is financially necessary. The Applicant intends to sell the townhomes below the cost of development, and any additional costs during construction would add to the amount that the Applicant needs to provide from fundraising or its own resources. Given the financial condition of the Applicant, it would be a financial hardship to deliver the planned townhomes, with the income restrictions proposed, without the retroactive and prospective exemption. As the bill does not specify the affordability level for the sale of the 25 townhomes, the proposed legislation should be amended to clarify the affordability threshold at an average of 60% of MFI for the 25 units.

The Applicant has requested the relief of real property taxes, interest, penalties, and fee include a full retroactive exemption for the Deanwood Property back to FY 2018, as well as extending the exemption term to June 31, 2025 for both properties, as it is when they believe the final units will be constructed and sold. This expanded exemption is also financially necessary, as the full tax liability increases the cost burden to the Applicant described above.

Attachment A

<u>About Habitat DC-NOVA</u>

(summary submitted by Applicant).

“Habitat for Humanity of Washington, DC & Northern Virginia (Habitat DC-NOVA) believes that *everyone,* regardless of socioeconomic status, race, heritage, creed or otherwise, deserves a decent place to live. Our mission is to reduce poverty housing and homelessness in the national capital area by building decent, affordable, energy-efficient homes for those in need. Habitat DC-NOVA’s programs leverage affordable homeownership as a transformative tool for building intergenerational wealth and security for families and stabilizing communities.

A unique strength of the Habitat model is the way in which affordable homeownership can build intergenerational wealth and begin to address the District’s striking racial wealth gap. Though Habitat DC-NOVA specifically serves low-income families, we provide service in recognition that the communities we seek to serve are predominantly Black because of pervasive racist legacies that have disproportionately forced Black and other residents of color into cyclical poverty. Of those we serve, 92% are Black and 73% are single women heads of household. Home ownership is an attribute of wealth because it requires a down payment. But it is also the primary means for building wealth. Households that are able to convert their greatest monthly living expense – rent — into a tax-protected asset, have a powerful tool for accumulating wealth.

As a newly expanded organization, Habitat DC-NOVA has an ambitious but necessary goal to serve 1,500 more families. We plan to achieve this goal by increasing affordable housing production across the region, expanding home repair and homeowner education services.”

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<u>900 55th Street NE and 2327-2341 Skyland Terrace SE – Summary of Community Benefits</u>

1. <u>Affordable Housing</u> – All 8 of the for-sale, single family units at 2327-2341 Skyland Terrace SE will be set aside for families earning at or below 60% of Median Family Income (MFI) as required by an affordability covenant in the Applicant’s Property Disposition Agreement with the District of Columbia. Two (2) of the for-sale single-family units at 900 55th St. NE will be set aside for families earning at or below 60% of MFI as required by DC Inclusionary Zoning. Per the Applicant’s organizational mission, they expect to make the remaining 15 units affordable to families with a blended average of 60% MFI. The average price in the neighborhood of the type of three bedroom/two bathroom unit the Applicant is building is $565,000, while the Applicant’s average price per unit is $360,000, making a benefit of approximately $205,000 per unit.

2. <u>Proposed Number of Jobs Created</u>: The Applicant does not plan to create any new jobs – they will use their own construction staff of 4 as well as volunteers.