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

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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** **Chief Financial Officer**
DATE:	**December 11, 2020**
SUBJECT:	**"The D.C. Central Kitchen Tax Rebate Act of 2020"**
REFERENCE:	**Bill 23-0708**

Findings

The proposed bill would provide a rebate to D.C. Central Kitchen, Inc. (DCCK) for its share of the real property taxes paid with respect to the property it leases for its new headquarters facility. The rebate proposed by Bill 23-0708 (Bill) is not necessary for DCCK to be reasonably expected to meet its fiscal needs. Based on previous years' financial statements provided by DCCK, the organization is in a strong and improving financial position. Although its expenses will increase significantly in its new facility, the scale of its current level of operations, and the organization's current capital campaign, will allow it to pay its estimated future real property taxes without financial difficulty. DCCK's demonstrated financial resources and anticipated fundraising provide an adequate financial basis for its continued operation in its new facility.

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

Background

DCCK is a non-profit social enterprise that combats hunger and poverty through training and job creation. In operation since 1989, DCCK is nationally recognized for its programs and social ventures, which provide culinary job training and employ graduates in living wage jobs in food service for schools and institutions, catering services, and two cafes, while also recovering excess food from farms and stores to make healthy meals for DC residents.[1]

[1] As reported on the DCCK website: dccentralkitchen.org

DCCK has sought to expand its operations through relocation to a new headquarters facility. DCCK has signed a lease for this new facility, located at 2121 1st Street SW (the River Point Facility). The River Point Facility occupies a portion of a new mixed-use development project on property known for tax and assessment purposes as Lot 10 in Square 613. DCCK will fit out and occupy approximately 36,000 square feet of space in late 2021 and early 2022. According to DCCK, this new facility will replace the existing facilities that DCCK operates in two separate locations, more than tripling the square footage of its kitchens and job training facilities, and allowing it to scale up its programming. Because the property is owned by a for-profit entity, the portion leased by DCCK cannot qualify for an administrative real property tax exemption.

Financial Analysis

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

(A) Terms of the Exemption or Abatement

The proposed legislation provides for a rebate of the portion of the real property tax allocable to the space occupied by DCCK so long as DCCK is liable under its lease for its proportionate share of the real property tax, DCCK timely applies for the rebate, and the tax was paid. The rebate shall apply beginning with tax year 2021.

(B) Value of the Exemption or Abatement

As shown in Table 1, the rebate is valued at approximately $643,000 through the financial plan period and totals approximately $10.3 million over 30 years.[2]

Table 1: Value of the Exemption or Abatement:

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025-2050	30-Year Total
Real Property Tax	0	207,000	214,000	222,000	9,637,000	10,280,000
TOTAL	**0**	**207,000**	**214,000**	**222,000**	**9,637,000**	**10,280,000**

(C) Purpose of the Abatement

According to the Bill, the rebate is intended to recognize and appreciate "the charitable and vital services provided by the D.C. Central Kitchen to the District's neediest residents."

[2] The estimates are based on DCCK's share of the taxes for the property (Square 613 Lot 10) given the calculations identified in DCCK's lease. Under the lease terms, DCCK is not anticipated to be obligated to pay taxes in fiscal year 2021. The fiscal year 2022 tax liability estimates the assessed value of the property when the building's construction is completed and DCCK's share of the property's taxes, and subsequent years increase the estimated taxes based on growth rates provided by the OCFO's Office of Revenue Analysis. Tax liability for the property may change if the landlord creates a separate tax lot for DCCK's leased premises.

(D) Summary of the Proposed Community Benefits

See attachment provided by the applicant.

(E) Financial Analysis and Advisory Opinion

The OCFO's Office of Finance and Treasury finds that the proposed abatement is not necessary for the DCCK to meet its fiscal needs. DCCK provided audited financial statements for its fiscal years 2018 through 2020.[3] Based on a review of the financial statements, the organization is in a strong and improving financial position. The scale of its current level of operations and the organization's current capital campaign are expected to allow the organization to pay its estimated future real property taxes. For the most recent three years, DCCK's net assets have grown by approximately 49 percent, or about $3 million, and indicate a materially sound organization. Its expenses during that time period have been stable, averaging about $17.4 million per year, including approximately $2.6 million on average for its supporting services (non-program) expenses. In terms of the operation's current scale, the estimated annual real property tax obligation for fiscal year 2022 represents just over one percent of DCCK's annual average total expenses and about eight percent of its average yearly supporting services expense during that period.

The tenant responsibilities under the River Point Facility lease and increased operating expenses in the new location will be a marked increase over prior year expenses. However, DCCK has initiated a $30 million capital campaign to raise funds to pay for the facility's fit-out, estimated at $10 million, with the remainder of the funds raised for reserves to pay increased expenses. Additionally, DCCK has unrestricted assets and lines of credit that could potentially be used to support payment of taxes and other operating expenses, in the event of a shortfall in increased program revenues and fundraising over the short term.

[3] DCCK's fiscal year ends on June 30 of the calendar year.

<u>Attachment: Statement of Community Benefits Provided by DCCK</u>

DC Central Kitchen at River Point
A Life-Changing Hub for Career Opportunities and Inclusive Economic Development

DC Central Kitchen's Track Record - By the Numbers

As a nationally acclaimed 501(c)3 nonprofit organization, DC Central Kitchen has a 31-year track record of implementing high-performing programs, piloting innovative solutions, and building a more inclusive, prosperous community in our nation's capital.

- 40 million meals served to schools, shelters, and nonprofits since 1989 – now more than **10,000 healthy meals each day**.
- More than 1,900 people with histories of trauma, incarceration, addiction, and homelessness trained for culinary careers with an **87% job placement rate**.
- In 2019, we began training Opportunity Youth – young adults disconnected from work and school – via a new program with a 93% graduation rate and **91% job placement rate**.
- 175 full-time employees – **54% of whom are DCCK culinary graduates** and all of whom receive living wages and comprehensive health and retirement benefits.
- A returning citizen who completes our training program is **91% less likely to reoffend** and return to prison than the national average.
- Profiled by *The New York Times, The Washington Post, The Atlantic, National Geographic, The Wall Street Journal, NPR, PBS NewsHour, Buzzfeed*, and *CNN,* and featured as a national leader in job training by The Aspen Institute, *Chronicle of Philanthropy*, US Chamber of Commerce, South by Southwest Interactive, and Social Enterprise World Forum.
- In 2019, our programs created **$79.9 million** in measurable social, economic, and environmental benefits for Washington, DC. In other words, **for every $1 we spent, we generated $4.85 in social returns on investment in our city**. This methodologically rigorous analysis reflects our quantifiable impact on reducing recidivism, preventing food waste, sourcing and distributing local food, promoting student achievement and attendance through top-quality school nutrition, and sustaining 175 good jobs in our community, many of them for individuals facing barriers to employment.

Anticipated Workforce Development Impact at River Point

- **Expanding enrollment in our job training programs by 150% within three to five years**, to nearly 300 people annually. We're turning away more than two-thirds of our applicants due to a lack of space, and we have a surplus of restaurants seeking our help to fill their open positions.
- **Diversifying our training services to meet emerging industry needs**. As the only registered hospitality apprenticeship provider in DC, we will expand this program within DC Central Kitchen and across our network of business partners. We will also partner

with an established food sector entrepreneurship accelerator to help them scale their services for aspiring business owners facing barriers to entry.

- **Establishing a high-profile hub for industry engagement.** With three partner restaurants on-site at River Point, we will use internships, apprenticeships, and on-the-job training to form a career pipeline that connects local residents with these great new businesses while serving as a model for the hospitality industry. And with established partners like Jose Andres, Spike Mendelsohn, Spike Gjerde, Carla Hall, Andrew Zimmern, Maneet Chauhan, Ted Allen, and Tom Colicchio, DC Central Kitchen and our events are where to find the culinary world's greatest luminaries. We will host book talks, master classes, culinary showcases, and other one-of-a-kind experiences that will elevate Washington, DC as an epicenter of global culinary innovation.
- **Creating more great jobs for our culinary graduates**. Based on the growth of our foodservice social enterprises, we anticipate creating up to 60 new full-time jobs with industry-leading health and retirement benefits by 2025.

Anticipated Food Economy and Community Development Impact at River Point

- **Bringing our scratch-cooked, farm-fresh meals to triple the number of DC schools**. Our award-winning program is primed to scale beyond the 4,000 children currently we serve each day – with a 92% student satisfaction rating. In addition to contracting with 10 to 20 additional schools in 2022, we will expand our portfolio to include more charter schools and early childhood centers in 2023.
- **Making healthy, affordable food available in every DC neighborhood**. Corner store sales of our healthy produce jumped 172% last year, and we are struggling to keep up with demand across the 55 small businesses currently receiving our wholesale deliveries. By scaling our distribution infrastructure and network, we can help small businesses meet growing demand for healthy food in DC's lower-income neighborhoods.
- **Building a food hub worthy of our nation's capital**. Dozens of small farmers already count on DC Central Kitchen to bring their goods to market. At River Point, we could produce more than 25,000 meals each day for low-income Washingtonians while investing another $1 million annually in area farms.
- **Offering meaningful volunteer opportunities for 25,000 people annually**. That tally is up from the 16,480 volunteers we hosted last year, as we have a three-month waitlist for the hugely popular volunteer experiences we offer up to three times per day, seven days per week.
- **Engaging cooking and nutrition classes**. Top local chefs and our respected nutrition educators will offer healthy cooking classes to seniors, singles, and families while we host community gatherings focused on food, health, and economic inclusion.
- **Amplifying our financial impact on DC to $200 million annually**. Based on the above expansion metrics and our established methodology for calculating our social return on investment, we could reach this level of annual impact by 2025.