

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



Fitzroy Lee
Interim 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
Interim Chief Financial Officer

A handwritten signature in black ink that reads "Fitzroy Lee".

DATE: June 23, 2021

SUBJECT: Emory Beacon of Light Tax Exemption and Equitable Tax Relief Act of 2021

REFERENCE: Fiscal Year 2022 Budget Support Act of 2021, Subtitle (II) (K)

Findings

This subtitle of the Fiscal Year 2022 Budget Support Act of 2021, Bill 24-285, would provide a retroactive and prospective real property, deed recordation, and transfer tax exemption with respect to property owned by Emory United Methodist Church (EUMC) and leased to Emory Beacon of Light (the Applicant) associated with the Beacon Center development. The Office of the Chief Financial Officer (OCFO) finds that the exemption is financially necessary for the Applicant to continue to operate its programs and services.¹ The Applicant would be required to raise substantial additional funds to cover the unpaid past year tax liability, including transfer and recordation taxes, penalties and interest, and annual taxes in the current and future years, or these amounts would need to be paid by EUMC as the property owner.

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

Background

The Applicant is a not for profit, Internal Revenue Code section 501(c)(3) community development organization established in 1996 that began as an outgrowth of the ministries of the EUMC. The Applicant partnered with The Community Builders (TCB) to create the Beacon Center, located at

¹ Financial information was provided only by the Applicant, and not the record property owner, Emory United Methodist Church. The lease between Applicant and EUMC was not provided.

6100 Georgia Avenue, NW in the Brightwood neighborhood of Ward 4. The Beacon Center is a mixed-use development that includes 99 units of affordable housing,² 31,800 square feet of church and multipurpose facilities, and 9,500 square feet of recreation and community-programmed space. The Applicant runs a food pantry, immigration clinic, and other services for residents and the community within the Beacon Center. It plans to offer a culinary arts program that will provide a sit-down restaurant and employ returning citizens and others needing training, and provide other amenities, services, and entrepreneurial ventures for which there is community need.

The Beacon Center opened in 2019. The Applicant entered into a lease with EUMC, and the Applicant then subleased the housing portion of the Beacon Center to an entity in which it has joint ownership with TCB. The lots associated with the housing became tax exempt pursuant to a certification from the Department of Housing and Community Development. However, a for-profit entity, Beacon Center QALICB LLC, was created and subleased a portion of the project from the Applicant to finance the newly constructed leasehold improvements funded in part with New Market Tax Credits. These improvements, on Lots 826, 828, 832, 7008, 7010, and 7011 in Square 2940 are not eligible for an administrative exemption because of the ownership structure. The remaining lots covered by the bill (Lots 831, 7007, 7009, and 7012) were not eligible for administrative exemption because, in general, they were vacant and not being put to an exempt use. The lots covered by the subtitle include EUMC’s church facility and the remaining portions of the Beacon Center, other than the affordable housing component.

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 subtitle exempts the aforementioned tax lots from real property and possessory interest taxation while they are owned by EUMC or entities it controls; if leased, it must be leased to QALICB LLC or a nonprofit organization; if subleased, it must be subleased to a nonprofit organization and used or held for use by one of these entities for affordable housing or community-serving purposes.³ In addition, the subtitle provides exemption from recordation and transfer taxes for leases, subleases, and security interest instruments recorded on the property, and forgives all such taxes assessed on documents recorded on the property beginning January 1, 2016 through the end of the month following the effective date of the bill. The bill also would be generally applicable as of January 1, 2016.

² The affordable housing component consists of 91 one, two, and three-bedroom units affordable at or below 60 percent of Median Family Income (MFI), and eight permanent supportive housing units serving households at or below 30 percent of MFI. This portion of the development has a separate exemption and is not a subject of the proposed subtitle.

³The subtitle articulates: “such as a church, gymnasium, classroom, food pantry, community or incubator kitchen, immigration clinic, small-business services, restaurant staffed by returning citizens, youth leadership academy, or health clinic.”

(B) Value of the Exemption

The proposed value of the exemption is found in the table below. The exemption, including tax forgiveness and refunds from prior fiscal years, has an estimated value of approximately \$1.8 million during the financial plan period and an additional \$8.8 million over 30 years.

Estimated Value of Proposed Exemption

Exemption	FY 2022	FY 2023	FY 2024	FY 2025	Total FY22-25	Total FY26-51	Total Value
Real Property or Possessory Interest Tax	\$971,000	\$223,000	\$225,000	\$231,000	\$ 1,650,000	\$8,776,000	\$10,426,000
Recordation and Deed Tax	\$149,000	0	0	0	\$149,000	0	\$149,000
Total	\$ 1,120,000	\$223,000	\$225,000	\$231,000	\$1,799,000	\$8,776,000	\$10,426,000

(C) Purpose of the Exemption

According to the Applicant, it was anticipated that the Beacon Center development would be exempt from real property and possessory interest taxation, and Applicant was not aware that the ownership structure of a portion of the development would trigger tax liability. The proposed exemption will provide the Applicant with tax relief that was unavailable through administrative means.

(D) Summary of the Proposed Community Benefits

The community benefits provided by the Applicant are provided in Attachment A.

(E) Financial Analysis and Advisory Opinion

The OCFO’s Office of Finance and Treasury (OFT) evaluated the Applicant’s 2020 and 2019 unaudited financial statements and 2018 audited financial statement (which includes 2018 and 2017 financial information)⁴ and discussed the Applicant’s financial condition with a representative of the Applicant. The estimated amount of annual tax liability in fiscal year 2022 is \$223,000 and is projected to increase over time.⁵ This amount of tax liability represents a substantial portion of the Applicant’s current level of revenues and expenses. Furthermore, the history of the Applicant’s level of cash and other current assets shown on its balance sheets indicates that funds are not sufficient to cover either the anticipated level of annual tax liability or the back taxes, penalties, and interest owed in the current year (represented by the \$1.12 million in Fiscal Year 2022 tax liability shown in the table). The Applicant’s revenues derive from program-based grants and charitable contributions and do not provide for the level of overhead that would be required to pay the estimated tax liability. Applicant would be required to raise additional funds to cover the projected real property taxes, in addition to the funds it is seeking to expand its programs and services, or the taxes would need to be paid by EUMC as property owner. For these reasons, the OFT finds that the

⁴ Applicant’s fiscal year ends December 31.

⁵ The fiscal year 2022 tax liability is equivalent to more than a quarter of the Applicant’s 2020 revenue and 2020 expenses.

proposed exemption is financially necessary in order for the Applicant to continue to operate its programs and services.

Attachment A

Summary of Community Benefits Provided by Applicant

In April of 2019 after many delays, we opened the Beacon Center to the Brightwood community. The Beacon Center provides 99 units of affordable housing which consists of 91 affordable family housing units and 8 permanent supportive housing units for those coming directly from the District of Columbia Shelter Program. Units range from studios to three-bedroom units. The studio units are targeted to permanent supportive housing and the one- to three-bedroom units are targeted to workforce houses with incomes between 30% to 60% of the Area Median Income. The weighted average household income is 45%. According to the Market Study, incomes could range from \$22,500 to \$75,000. There are currently 267 individuals occupying this housing. Given the anticipated target populations of working families with children and homeless individuals; youth and adult programs are of importance at the Beacon Center. Due to the needs of the target populations, providing for recreation and community space is also important. There are community/meeting rooms available in each building to provide on-site resident facilities. Other anticipated target population needs include:

- On-site Social Workers/Counselors
- Opportunities for adult continuing education, ranging from GED programs to evening career-enhancing classes and job training programs.
- Physical fitness activities for adults and children.
- Substance abuse programs and services.
- Credit counseling services.
- Home purchase education and mortgage assistance.
- Income maintenance and food supplement programs for unemployed and low-wage residents.
- Programs to foster community safety and crime awareness.
- Convenient public transportation options for those households without a car.

During the development process of the Beacon Center the community said that they wanted a sit down restaurant in the neighborhood. The conception for this has included the need for job training and the restaurant will also be a culinary arts training program. EBOL is working with ArtDrenaline to create and manage the culinary arts training program and restaurant (Aunt Betty’s). The program will have kitchen and classroom time running simultaneously. There will be 15 students each session with two sessions each year. The students will not only learn how to run a restaurant and cook but also networking skills, computer skills, and customer service training. There is also a social work component to this program giving the students the emotional and life stabilization support. Students will have the experience of running a restaurant as chefs, restaurant management, and wait staff in preparation of getting restaurant jobs upon completion of their training at Aunt Betty’s or starting their own restaurant. EBOL and ArtDrenaline will use our platform to build in-demand skills, create opportunities, and build community. Aunt Betty’s restaurant is a needed addition to the Brightwood neighborhood, a new fast casual restaurant, a training programming, and incubator space for visioning chefs.

We continue to have an active involvement with the community, including the expansion of existing programs/services such as the food pantry, the Beacon Clean Team, Immigration Clinic, and the offering of new programs/services based on the availability of additional space, as a resource for meetings and gatherings that the surrounding neighborhood has access to, which helps to keep the community connected. We also coordinate with the property managers of the residential portion of The Beacon Center to provide social services to both affordable housing residents and residents who live in our permanent supportive housing units. Overall, The Beacon Center construction phase anticipated 30 hires from public housing and low-income communities. The project exceeded the project goal by hiring 34 people over the three project components, Church/NMTC, Community, and Residential. The project accomplished significant economic impacts for businesses from underrepresented populations of minority contractors and vendors. The project expended more than \$23M with these businesses.

None of the listed community benefits were required by law through the zoning process.