

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



**Natwar M. Gandhi**  
Chief Financial Officer

**TAX ABATEMENT FINANCIAL ANALYSIS**

**TO:** The Honorable Vincent C. Gray  
Mayor, District of Columbia

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

**FROM:** Natwar M. Gandhi  
Chief Financial Officer

A handwritten signature in black ink, appearing to read 'N. Gandhi', written over the printed name of the Chief Financial Officer.

**DATE:** January 8, 2013

**SUBJECT:** "Basilica of the National Shrine of the Immaculate Conception Real Property Tax Exemption and Equitable Real Property Tax Relief Act of 2012"

**REFERENCE:** Bill Number 19-957

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**Findings**

The property tax exemptions proposed by the Basilica of the National Shrine of the Immaculate Conception Real Property Tax Exemption and Equitable Real Property Tax Relief Act of 2012, Bill 19-957 (Act) would allow the property owner, the Basilica of the National Shrine of the Immaculate Conception (Basilica), to maintain land it plans to develop in the future for religious purposes without paying real property taxes for the period prior to such development. In addition, the Act would refund deed recordation taxes paid by the Basilica upon taking ownership of the property in July 2012.

The Basilica does not plan to develop the property for commercial purposes, and therefore it will not earn income with which to make property tax payments. The Office of the Chief Financial Officer (OCFO) did not analyze the financial statements of the Basilica or those of the Roman Catholic Church. However, as the Basilica is a religious, not-for-profit organization, its likely options for meeting its tax obligations are relying on reserves, raising new donations, or cutting other expenses. The legislation addresses an issue within the tax code, whereby religious organizations are subject to real property taxation during the period before they build on undeveloped land. The legislation requires the Council to decide whether a tax abatement based on the eventual use for a religious purpose is appropriate in this instance.

If the Council chooses to provide the proposed exemptions from real property tax, deed recordation and transfer taxes, the OCFO recommends that the exemptions be in place only until the Property is developed and used for religious purposes. At that time, the Basilica could apply for an as-of-right exemption with the Office of Tax and Revenue. In addition, the Council and the Mayor could add a clause to the proposed legislation that would require the Basilica to pay back all exempt taxes in the event that the Basilica chooses to sell the property or to develop the property for commercial purposes rather than use it for the stated religious purposes.

## **Background**

Property owned by religious, not-for-profit organizations and used for religious purposes is exempt from real property, deed recordation and transfer taxes under existing District law. Because the property identified in the Act is currently undeveloped and therefore not used for religious purposes, it would not be exempt from taxation as a matter of right under District law.

The Act would exempt the Basilica from real property, deed recordation and transfer taxes for the property located in Square 3663, Lot 6 (Property), which is directly across the street from the Basilica. The Basilica paid recordation taxes when it purchased the property in July 2012. The bill would also refund those taxes paid.

The Property consists of 5 acres of undeveloped land, which was part of a larger 49 acre site (Parcel 121/29) that was transferred from the federal government to The Catholic University of America (CUA) in 2005. At the time that the property was transferred to CUA, the Council passed legislation exempting CUA from paying real property, deed recordation or transfer taxes on the site.<sup>1</sup> However, this legislation was only applicable when CUA was the owner of the site. In July 2012, CUA sold a 5-acre portion of the larger site to the Basilica, and at that time, the Property became taxable.

The Basilica plans to develop the Property for non-commercial purposes. The plan is to create a “Rosary Walk” prayer and meditation project as well as a Basilica office building and visitors’ center. Currently the Basilica’s office space and visitors’ center are located in the National Shrine. The Basilica would like to move those functions into a more suitable office environment, freeing up space in the National Shrine for worship.

Because the land is undeveloped, there is a fair amount of work that will be needed to plan and prepare the site for development. The Basilica has included \$200,000 in its current budget for a landscape architecture study, engineering assessments, and water-management recommendations.

The Basilica plans to pay for the development of the Property through fundraising, and cannot commence construction until adequate capital has been raised. The timeline for the creation of the Rosary Walk is 2 to 5 years. Given the fundraising goals for the office building and visitors’ center, the timeline for the construction of this building is at least 10 years. The purpose of the Act is to exempt the Basilica from paying real property taxes on the undeveloped parcel of land during the period in which the Basilica is planning and fundraising for its development.

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<sup>1</sup> The Catholic University of America Real Property Tax Exemption and Equitable Real Property Tax Relief Act of 2005, effective October 20, 2005 (D.C. Law 16-33; D.C. Official Code § 47-1066).

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

### Terms of the Exemption or Abatement

The legislation states that the Property shall be exempt from taxation so long as it continues to be owned by the Basilica and not used for commercial purposes.

#### 1. Annual Proposed Value of the Exemption or Abatement

At the time that the Property was transferred from CUA to the Basilica in July 2012, the Basilica paid \$38,125 in recordation fees. The legislation would refund this amount to the Basilica. In addition, the legislation would exempt the Basilica from paying real property taxes. The OCFO estimates the proposed value of the exemptions to be:

Projected Value of Tax Exemption						
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017- FY 2027	Total FY 2013- FY 2027
Recordation Tax Refund	\$ 38,125					\$ 38,125
Real Property Tax Exemption	\$ 83,309	\$ 85,808	\$ 88,039	\$ 90,328	\$ 1,162,861	\$ 1,510,344
Total	\$ 121,433	\$ 85,808	\$ 88,039	\$ 90,328	\$ 1,162,861	\$ 1,548,469

*\*Assuming the property begins being utilized for religious purposes in 2028.*

#### 2. Summary of the Proposed Community Benefits

A summary of the proposed community benefits as submitted by the Basilica is attached to this analysis.

#### 3. Financial Analysis for Development Projects

- A. *Review and Analysis of the Financing Proposal Including Advisory Opinion Stating Whether or Not It is Likely that the Project Could Be Financed Without the Proposed Exemption or Abatement*

The Basilica provided the OCFO with preliminary plans and cost estimates for the Rosary Walk and office building/visitors’ center. The Rosary Walk is estimated to cost \$2 million to create. The Rosary Walk will be created as an outdoor, meditation space for visitors to the National Shrine. There will be no direct revenue associated with this project, and the construction will be paid for entirely by donations.

The office building and visitors’ center is planned to be a 4-story, 60,000 square foot building and is estimated to cost \$25 million to build. The building will house the Basilica’s workforce as well as a visitors’ center. No revenue is expected from the office portion of the building. The visitors’ center

is currently located in the National Shrine, so only limited additional revenue is expected from the construction of a new visitors’ center.

*B. Estimate of the Amount of Exemption or Abatement Necessary to Enable the Project to Be Financed*

Because the Basilica is a not-for-profit, religious organization, the payment of real property taxes could potentially require the organization to decrease necessary expenditures. If the Council chooses to provide the proposed exemptions from real property tax, deed recordation and transfer taxes, the OCFO recommends that the exemptions only be in place until the Property is developed and used for religious purposes. At that time, the Basilica could apply for an as-of-right exemption with the Office of Tax and Revenue.

*C. Assessment of the Developer’s Documentation of Efforts to Seek Alternate Financing and the Factors that Limit the Developer’s Ability to Obtain Adequate Financing*

The Basilica plans to pay for the development of the Property through a fundraising campaign. The Rosary Walk and office space/visitors’ center will not produce net operating income. The Basilica is unlikely to be able to secure traditional debt or equity because its not-for-profit business model does not create sufficient net operating income to make debt service or equity payments.

*Other Considerations*

The Council and Mayor may want to consider the precedent set by the proposed legislation. There are many not-for-profit, religious organizations in the District that own property that is not currently used for religious purposes. The current tax code provides an incentive to these organizations to develop their sites expeditiously, which can help reduce neighborhood blight. The Council and the Mayor may not want to give these organizations an incentive to delay construction on vacant land. Additionally, the owner could eventually develop the land for another, commercial purpose or sell the land. To address this issue, the Council and the Mayor could add a clause to the proposed legislation that would require the Basilica to pay back all exempt taxes in the event that the Basilica chooses to sell the property or to develop the property for commercial purposes rather than to develop the property for religious purposes as currently contemplated.