

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



Jeff 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: **Jeff DeWitt**
Chief Financial Officer

A handwritten signature in black ink that reads "Jeffrey S DeWitt".

DATE: **May 30, 2017**

SUBJECT: **"Women's National Democratic Club Real Property Tax Exemption Act of 2017"**

REFERENCE: **FY2018 Budget Support Act of 2017, Section XX**

Findings

The proposed exemption is not necessary because the Women's National Democratic Club should be able to make property tax payments attributable to the portion of the building that is rented to outside parties with the rent income received from the lessees.

Background

The Women's National Democratic Club (the Club) occupies a building at 1526 New Hampshire Avenue, NW¹ on Dupont Circle. Prior to 2015, the building was exempt from District of Columbia real property tax. Beginning on January 1, 2015 the Office of Tax and Revenue revoked the exemption on the portion of the building the Club rented to other organizations for their own use. Currently, 13.98% of the building is taxable, based on the portion of the building the Club rents to produce income.

Financial Analysis

The proposed legislation provides a real property exemption on the entire building in perpetuity beginning in FY 2018, so long as the building is owned by the Women's National Democratic Club.

¹ Known for tax and assessment purposes as Lot 5, Square 135.

Annual Proposed Value of the Exemption or Abatement

The value of the exemption in FY 2018 is \$15,318. As shown below, the estimated value of the exemption over the next 25 years, assuming the same portion of the building is made available for rental use, is approximately \$590,000.

Estimated Value of Real Property Tax Exemption for Women's National Democratic Club						
	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY2022- FY2043</u>	<u>TOTAL</u>
Real Property Exemption	\$ 15,318	\$ 15,813	\$ 16,259	\$ 16,745	\$ 526,024	\$ 590,158

Financial Analysis

The Club rents a portion of its building to tenants in a manner that disqualifies such portion of the property from exemption. The Club has leased portions of the building to different entities over time. The current tenant is a for-profit business, whose use does not qualify for exemption.

The Office of Economic Development Finance (EDF) was not provided, and did not review, financial information for the Women’s National Democratic Club. Rather, EDF considered general real estate leasing practices in the commercial real estate market. Under a typical commercial lease structure, the lessee pays certain expenses (such as real property taxes) in addition to its base rent payment. In cases where the rent is all-inclusive, the lessor generally incorporates into the lease payment the amount of estimated real property tax attributable to the portion of the building being leased.

EDF finds the proposed exemption is not necessary because the Women’s National Democratic Club should be able to charge a rent sufficient to both pay the real property taxes and provide rental income to the Club.