

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



Glen M. Lee
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: **Glen M. Lee**
Chief Financial Officer

A handwritten signature in black ink, appearing to read "Glen M. Lee".

DATE: **November 21, 2022**

SUBJECT: **Tax Abatement Financial Analysis- "Howard University Property Tax Exemption Clarification Amendment Act of 2022"**

REFERENCE: **Bill 24-1089**

Findings

The "Howard University Property Tax Exemption Clarification Amendment Act of 2022" (the "Bill") would exempt the property designated as Square 3055, Lot 0015 (the "Property") from real property taxes beginning January 1, 2023 so long as the Property is used for the purposes set forth in the charter of Howard University, or for uses consistent with the educational, social, and community-oriented mission of Howard University. Further, the Bill would forgive any real property taxes, interest, penalties, fees, and other related charges assessed against the Property since January 1, 2017.

Based on Howard University's audited financial statements, Howard University does not operate at a deficit, and the tax liability represents a small portion of its revenues and expenses. The Office of the Chief Financial Officer ("OCFO") finds the abatement is not financially necessary for Howard University to continue to meet its fiscal needs.

Background

The Property is located at 500 Harvard Street, NW, on the Howard University campus in Ward 1 and features the Charles R. Drew Hall, an all-freshman male residence hall housing approximately 320 students. The Property is one of three student dormitories owned by Howard Dormitory Holdings 1, LLC (the "LLC"), a title-holding entity of which Howard University is the sole member (jointly with the LLC, the "Applicant").

The LLC applied for and was granted an administrative tax exemption for the other two properties under its ownership: Howard Plaza Towers and Cook Hall, known for tax and assessment purposes as Lot 1101 in Square 2873 and Lot 835 in Square 3058, respectively. The Property was classified as taxable in 2017, when ownership was transferred to the LLC. The LLC was denied an administrative exemption on the Property in 2019 because a certificate of occupancy evidencing the use of the Property as a dormitory, which was necessary to qualify for an administrative exemption, was not submitted. Accordingly, an administrative exemption could not be granted because the application was incomplete. The LLC did not timely reapply for exemption. Since 2017, the Property has accrued an unpaid tax liability, including interest and penalties, and was recently the subject of a tax lien sale.

Financial Analysis

(A) Terms of the Exemption

The Bill would exempt the Property beginning January 1, 2023 so long as it is used for the purposes set forth in the charter of Howard University, or for uses consistent with the educational, social, and community-oriented mission of Howard University. The Bill would also forgive real property taxes, interest, penalties etc. assessed against the Property for the period beginning January 1, 2017. Section 2(c) of the Bill appears to also extend exemption to properties leased by Howard University or its affiliates, or sold by the University or its affiliates, title to which may be in the name of its affiliates.

(B) Value of the Exemption

As shown in Table 1, the Bill’s proposed tax relief for the Property is valued at approximately \$10.8 million through 2051. The estimate includes the retrospective tax liability for tax year 2022 and previous years, based on the calculation of penalties and interest as of November 1, 2022.¹ The estimated value through the financial plan period is about \$2.5 million.

Additional properties could be subject to the exemption allowed by Section 2(c) of the Bill. No such properties have been identified by the Applicant or the OCFO, but real property that meets this provision in future years could potentially increase the value of the proposed tax exemption significantly.

Table 1: Estimated Value of the Proposed Tax Exemption

Exemption	Prior to FY2023	FY 2023	FY 2024	FY 2025	FY 2026	Total Through FY2026	Total FY 2027-51	Total Value
Real Property Tax	\$1,669,000	\$208,000	\$208,000	\$214,000	\$221,000	\$2,520,000	\$8,283,000	\$10,803,000
Total	\$1,669,000	\$208,000	\$208,000	\$214,000	\$221,000	\$2,520,000	\$8,283,000	\$10,803,000

¹ The estimate does not include any possible additional fees associated with the clearing of the tax lien on the Property. These potential costs are also not included in the Bill.

The Exemptions and Abatements Information Requirements Act of 2011 requires certain information from the Applicant pertaining to political contributions and contracts held by the Applicant if the total estimated value of the abatement or exemption is \$250,000 or more. According to the Applicant, no political contributions have been or will be made by the LLC, as the Property owner and taxpayer. The LLC has no contracts with the District of Columbia.

(C) Purpose of the Exemption

According to the Applicant, the exemption corrects a problem that occurred when Howard University transferred several dormitory properties to the LLC in January 2017.

(D) Summary of the Proposed Community Benefits

According to the Applicant, because the purpose of this exemption is an administrative remedy, community benefits are not applicable.

(E) Financial Analysis and Advisory Opinion

The OCFO’s Office of Finance and Treasury evaluated the audited financial statements for Howard University’s fiscal years (ending in June) 2019 to 2021. The LLC does not have separate financial statements for Drew Hall as the building’s revenues and expenses are included in Howard University’s consolidated financial statements. Based on unrestricted operating revenues and expenses in each of these years, Howard University has sufficient revenues to pay the estimated real property tax liability on the Property, retrospectively and prospectively, without financial hardship. In addition, the annual estimated tax liability, approximately \$208,000 in the District’s 2023 tax year and fiscal year, is less than one percent of Howard University’s average annual unrestricted operating revenues and average operating expenses from 2019 to 2021. Furthermore, an analysis of Howard University’s balance sheet over the past three years indicates its current assets are consistently able to cover its current liabilities.

Conclusion

For these reasons, OCFO finds that real property tax forgiveness and exemption of real property tax liability for the Property are not financially necessary. Based on the relatively small amount of real property taxes involved and Howard University’s overall fiscal health, Howard University has sufficient resources to pay this tax liability.