

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



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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: **July 6, 2020**

SUBJECT: **“Skyland Tax Exemption Amendment Act of 2020”**

REFERENCE: **Draft Amendment to the Budget Support Act**

Findings

The proposed amendment would provide recordation and transfer tax exemptions with respect to 30 parcels comprising part of the Skyland Town Center development project (Skyland Town Center) that are located at the intersection of Good Hope Road, SE, Naylor Road, SE, Alabama Avenue, SE, and 28th Street, SE (the Properties). Skyland Town Center has received Tax Increment Financing (TIF) and other financial support from the District.

The proposed tax relief is a one-time benefit to Skyland Holdings, LLC (Developer) of up to \$420,840 between the effective date of the Fiscal Year 2021 Budget Support Act (BSA) and December 31, 2020.

Although the amount of the proposed exemption represents a very small portion of the total cost to complete Skyland Town Center, the cost of the transfer and recordation taxes would increase the project’s existing funding gap, and thereby increases the amount of subsidy the project requires from the District or other sources. Therefore, the Office of the Chief Financial Officer (OCFO) finds that the exemption proposed by the amendment is financially necessary if the District would like to support the continued development of Skyland Town Center.

Please refer to the separate Fiscal Impact Statement for the effect of the proposed amendment on the District’s budget and financial plan.

Background

The Properties are part of the development project known as Skyland Town Center. They are located in the Hillcrest neighborhood of Ward 7 and are known for tax and assessment purposes as Lots 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 822, 823, 824, 825, 826, 827, 829, 830, 831, 7000, 7001, 7009, and 7010 in Square 5633.

The developer of the project is Skyland Holdings, LLC, a joint venture between The Rappaport Companies and William C. Smith & Company, Inc. (the Developer). Skyland Town Center is a phased development of 18.5 acres. The site was previously a strip mall and now is being transformed into a mixed-use retail and residential development. The District sold the land to the Developer and committed TIF revenues and grants to support infrastructure-related improvements. The first phase of the project, approximately 85,000 square feet of retail and 263 residential units (53 affordable), is currently under construction.

The original development program for the remaining phases was designed and planned to be anchored by a Walmart, which terminated its lease obligation in 2016. Walmart’s decision required the Developer to change its plans to accommodate different uses that are now part of the new plan for Skyland Town Center. The new Skyland Town Center will have Lidl as the new anchor tenant, introducing a fourth grocery store to the East End. In addition to Lidl, the development plan for the remainder of the site includes additional retail, a medical office building, and an apartment building.

To implement the new development plan, the Developer must change the ownership structure of the Properties. While the existing lots will be subject of consolidation and re-division and new lots will be created to align with the new development plan, the previously established multiple subsidiaries and parent company (Skyland Holdings, LLC) will remain. As stated by the Developer, the entire process needs to be completed by the end of the year as a condition of Lidl’s lease requirements.

In 2007, the Council approved legislation for a Skyland TIF in the amount of \$40 million. The District issued \$17.4 million in TIF bonds in 2018, supported by the projected tax increment of the first phase of development. The remainder of the TIF authorization can be used to support the remainder of the Skyland project, to the extent that the projected tax increment can support the TIF debt.

Financial Analysis

D.C. Official Code § 47-4701 requires the analysis provided by the OCFO to contain certain information. The required information is included below.

Terms of the Exemption or Abatement

The proposed amendment provides transfer and recordation tax exemptions for transactions with respect to the Properties recorded between the effective date of the BSA and December 31, 2020, up to the maximum amount of \$420,840.

Proposed Value of the Exemption or Abatement

The value of the exemption is provided in Table 1. The value of the proposed tax relief assumes that the recordation and transfer taxes on transactions involving the Properties equals at least the full value of the exemption, and that these transactions will occur by the end of calendar year 2020.

Table 1. Estimated Value of the Proposed Exemption

	FY20	FY21	FY22	FY23	FY24	Total
Deed Recordation and Transfer Tax	\$0	\$420,840	\$0	\$0	\$0	\$420,840

Summary of the Proposed Community Benefits

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

Financial Analysis for Development Projects

The OCFO’s Office of Finance and Treasury reviewed the financial information provided by the Developer. Table 2 summarizes the Developer’s information about the potential sources and uses of funds for the remaining phases of Skyland Town Center.

Table 2. Funding Sources and Uses

Sources	(\$Millions)
Debt	\$92.4
Equity	\$34.6
New Markets Tax Credit	\$4.1
Tax Increment Financing ¹	\$21.3
Deferred Developer Fee	\$2.0
District Subsidy (Requested)	\$9.5
Remaining Subsidy Gap	\$9.7
Total Sources	\$173.5
Uses	(\$Millions)
Acquisition	\$0.0
Construction Hard Costs	\$123.7
Tenant Improvements & Leasing Commissions	\$17.1
Soft Costs, Financing Costs, & Developer Fee	\$32.7
Total Uses	\$173.5

¹ The amount of proceeds from Tax Increment Financing has not yet been determined and will depend upon the projected incremental tax revenues that can support the TIF debt.

According to the information provided by the Developer, the cost of the remaining development is estimated to be \$173.5 million. Although the recordation and transfer taxes covered by the proposed exemption comprise a very small portion of the total development cost of the remaining Skyland Town Center project,² according to the Developer these costs are in addition to the estimated costs reflected in the table.

The funding sources available to construct the remaining development show a funding gap of \$19.2 million (the sum of the shaded rows under Sources portion of Table 2). Of that amount, the Developer has requested approximately \$9.5 million from the District and will continue to seek the remaining \$9.7 million from other sources.³ Based on the information available, the Office of Finance and Treasury concurs with the Developer that the debt and equity contributions to the remainder of the Skyland Town Center project are not likely to be sufficient to fill the \$19.2 million funding gap, given the projected cost of the project and the project’s net revenue as estimated by the Developer.

Conclusion

Although the amount of the proposed exemption represents a very small portion of the total cost to complete the Skyland Town Center, the cost of the transfer and recordation taxes will increase the estimated funding gap that already exists. Therefore, the OCFO finds that the exemption provided by the proposed amendment to the Budget Support Act is financially necessary if the District would like to support the advancement of the remainder of the development plan for Skyland Town Center.

² The Developer estimates the cost of the transfer and recordation taxes to be approximately \$839,000, equivalent to about 0.5 percent of the development costs. The proposed bill would exempt approximately half of the estimated tax liability.

³ The Developer attributes the remaining the funding gap to the multifamily building, and informed the Office of Finance and Treasury that the available sources of funding do not meet the cost of construction.

Attachment: Summary of Community Benefits Provided by the Developer

Generally, the Modification Project continues to propose the same public benefits and amenities proffered in the PUD Project, which the Commission determined were acceptable benefits and amenities that are not inconsistent with the Comprehensive Plan and are otherwise superior benefits related to affordable housing, urban design, landscaping and open space, site planning, job training and employment opportunities, transportation measures, environmental benefits, and uses of special value to the neighborhood and District as a whole. As part of the Modification Project, the Developer proposes to adjust some of the benefits to accurately reflect the final mix of uses.

Housing and Affordable Housing: Block 2 has already provided benefits to the District of housing and affordable housing, and Block 4 will provide additional housing and affordable housing as part of the Modification Project. Consistent with the PUD Project, all housing provided will include 20% of the residential units being reserved for households earning up to 80% of the Median Family Income (“MFI”) and an additional 10% of the units reserved for households earning up to 120% of the MFI.

Uses of Special Value: The Developer remains committed to the monetary contributions required under the initial PUD Project Order including (a) \$200,000 for local school support; (b) \$35,000 for sponsorship of local community events and programs, which the Developer has already exceeded; (d) \$500,000 for the local retailer build out subsidy; (e) \$50,000 for the Anacostia and Francis Gregory libraries; (f) \$50,000 for pocket park improvements, which the Developer has already satisfied; and (g) \$75,000 for job training, which the Developer has already significantly exceeded as detailed above. However, because the Modification Project will no longer include for-sale housing, the Developer proposes to reallocate the \$75,000 for homebuying and homeownership classes to the job training program. In addition, the Developer has also been able to fund draws timely thereby eliminating the need for a Contractor Loan Fund, therefore the Developer proposes to reallocate the \$300,000 for the Contractor Loan fund to the Skyland Workforce Center/job training which includes construction job training.

As detailed above, the Developer has provided over \$600,000 in funding for job training, well in excess of the \$75,000 originally committed for that purpose.

Revenue for the District: The PUD Project will continue to provide a significant number of new households and retail space that will contribute to the District’s tax base.

Employment and Training Opportunities: The Developer has already provided a significant benefit in job training and employment opportunities through the Skyland Workforce Center, which the Modification Project will continue to do. The Developer has also committed to entering into a First Source Agreement and a Certified Business Enterprise Utilization Agreement for the PUD Project.

Transportation Infrastructure: The Modification Project continues to include substantial transportation infrastructure improvements, including (a) a new signalized intersection at Naylor Road and Town Center Drive, (b) pavement restriping on Naylor Road to increase capacity, (c) intersection improvements in the general Property vicinity, and (d) the creation of high-visibility pedestrian crosswalks at intersections adjacent to the Property. The Developer has already completed many of these improvements, including construction of Town Center Drive, replacement of traffic control fixtures, and the improved pedestrian striping.