

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

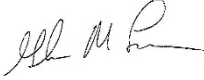


Glen M. Lee
Chief Financial Officer

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 

DATE: **September 26, 2023**

SUBJECT: **Tax Abatement Financial Analysis- "Kappa Alpha Psi Fraternity, Inc. Real Property Tax Exemption Act of 2023"**

REFERENCE: **Bill 25-0428**

Findings

The "Kappa Alpha Psi Fraternity, Inc. Real Property Tax Exemption Act of 2023" (the "Bill") would exempt the real property located at 1708 S Street NW, known for assessment and taxation purposes as Lot 813, Square 154 (the "Property"), from real property taxes, for a ten-year period beginning January 1, 2024, and ending January 1, 2034, so long as the Property is owned by Kappa Alpha Psi Fraternity, Inc. (the "Applicant").

The purpose of the tax exemption is to partially offset the cost of necessary renovations and repairs at the Property. Based on the Applicant's current and projected financial position (including current and projected income, expenses, and net assets), the Office of the Chief Financial Officer (OCFO) finds that the exemption is financially necessary for the Applicant to operate at the Property in a safe, cost-effective manner. It is unlikely that the applicant could reasonably pursue the planned renovation and repair program in the absence of the exemption.

Background

Established in 1924, the Applicant is a social club exempt from federal income tax under section 501(c)(7) of the Internal Revenue Code. The national Kappa Alpha Psi Fraternity was founded at Indiana University in 1911 and is the second oldest existing collegiate Historically Black Greek Letter

Fraternity¹. The Applicant has owned and operated out of the Georgian-style, four-story rowhouse located at 1708 S Street NW (the “Property”) in the District of Columbia’s Dupont Circle neighborhood since 1948. The Applicant currently uses the Property as a meeting place for members, to host public events, and to provide a multitude of services to members of the surrounding community. A summary of the proposed community benefits provided by the Applicant can be found in Attachment A.

The Applicant is seeking a real property tax exemption at the Property to partially offset the costs of an extensive renovation and repair project. The project is the first major renovation and repair since the Applicant began occupancy at the Property and covers a wide range of necessary capital improvements including: elevator installation, life safety upgrades, fire suppression system installation, boiler and stair replacements, and electrical upgrades. The renovation program also includes some major non-essential cosmetic repairs, including door and window replacements, façade, floor and wall restorations, etc.

The Applicant estimates the total cost of the renovation and repair project at the Property to be \$807,500, based on third-party contractor estimates and construction data. As of the time of Tax Abatement Financial Analysis (“TAFA”) application, an initial phase of renovating upper floor meeting/conference spaces has been underway since fiscal year 2020, with completion scheduled for January 2024. The \$144,000 total cost of this initial phase is already covered by donations and a historic preservation grant. The remaining \$663,500 in project-related expenses is currently unfunded.

Financial Analysis

(A) Terms of the Exemption

The Bill would exempt the Property from real property taxes for a ten-year period beginning January 1, 2024, and ending January 1, 2034, so long as the Property is owned by the Applicant.

(B) Value of the Exemption

Assuming the renovation is completed by Fiscal Year (“FY”) 2034, the Bill’s proposed tax relief for the Property is estimated at approximately \$241,000 through the financial plan period and \$529,000 through FY 2034, as presented in Table 1.

This estimate also assumes the entire property will be fully taxed at the higher Commercial Use Class (Class 2) rate beginning in FY 2024 instead of its current mixed-use designation. This is because the Office of Tax and Revenue has not yet received an FY 2024 Application for Mixed Use Classification for this property.

The exemption would continue as long as the conditions specified in the Bill are satisfied.

¹ Kappa Alpha Psi Fraternity, Inc., “A Brief History”, Retrieved from: <https://www.kappaalphapsi1911.com/kapsi/s/about-us/history>.

Table 1: Estimated Value of the Proposed Tax Exemption

Real Property Tax Exemption	FY 2024	FY 2025	FY 2026	FY 2027	Total FY24-27	Total FY29-34	Total
<i>1708 S St. NW (Lot 813, Square 154)</i>	\$45,000	\$46,000	\$47,000	\$50,000	\$190,000	\$339,000	\$529,000

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 made by the Applicant or its trustees since the introduction of Bill 25-0428, nor is the Applicant involved contractually with the District of Columbia.

(C) Purpose of the Exemption

As stated by the Applicant, the purpose of the tax exemption is to partially offset the costs of renovations needed on the Property, which would remediate nearly 75 years of accumulated wear-and-tear and allow the organization to continue to operate in a safe and cost-effective manner on the Property.

(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 unaudited financial statements for the Applicant’s fiscal years (ending September 30) FY 2020 through FY 2022, and year-to-date FY 2023 (through July 31). OFT also reviewed the cost estimates provided by the Applicant for its renovation program of the Property.

The Applicant’s primary source of revenue is membership dues, which has remained stable and comprises between 55 to 85 percent of its annual revenue over the past few years. The Applicant’s remaining revenue sources consist of fundraisers and additional member donations dedicated to special projects. OFT’s evaluation indicates that revenue from fundraisers generally cover event costs but do not generate a significant surplus. Thus, membership dues are the principal source of revenue needed to cover operating costs such as property taxes and utilities, organizational management and administration, and program development. With the exception of FY 2020, the Applicant’s financial statements indicate it is effectively “breaking even”, with operating costs slightly exceeding its revenues during FY 2022 and FY 2023.

The Property’s remaining renovation and repair program is estimated to cost \$663,500, which is mostly comprised of necessary capital improvements and repairs that have been deferred over its 75-year history. The Applicant stated that it intends to fund the renovation program using the annual revenue conserved from the tax exemption and supplement it with potential one-time donations and grants. While a construction schedule for this program has not been committed and will depend on funding availability, given the necessity of the repairs it would most likely need to be undertaken over the short-to-medium term within 10 years.

The Applicant’s sole assets are the Kappa House (i.e. the Property) and a \$75,000 capital and operating reserve. Given the cost of the renovation and repair program, the Applicant is unlikely to raise enough in grants and one-time donations after extinguishing their reserve to fill the funding gap (approximately \$590,000). Furthermore, while the Applicant owns the Kappa House without a mortgage and the property is assessed at \$2.75 million, OFT believes the Applicant would have difficulty qualifying for a commercial equity line of credit (CELOC) to fund the renovation because its lack of annual net income would be insufficient to cover debt repayments to the lender.

The Applicant estimates a tax exemption would create an additional \$36,000 annually in their budget². Although the cumulative 10-year impact of the exemption to the Applicant (\$360,000) remains less than the total cost of the renovation program, the remaining balance could be more realistically covered through donations and grants.

Conclusion

Based on the Applicant’s current and projected financial position (including current and projected income, expenses, and net assets), and the necessity of the renovation and repair projects for the Applicant to operate its activities and community service functions in a safe and cost-effective manner, the OCFO finds that the exemption is financially necessary.

² According to the applicant, \$36,000 is the average annual real property tax liability incurred in past years, which would then be freed up in future budgets. This is different from their future tax liability presented in Table 1.

Attachment A: Summary of Community Benefits

The Applicant and its nearly 300 members provide a wide array of community services and engagements at the Property. The tax abatement and subsequent renovation program would allow the continuation and enhancement of the following community benefits (as specified by the Applicant):

1. Elementary, middle, and high school reading programs for our Kappa Leaguers (Mentorship Program).
2. Backpack/book pack giveaways for the youth.
3. Holiday meal baskets and clothing programs for returning citizens and veterans.
4. Health and Wellness programs that target black male health concerns.
5. Conduct voter registration drives.
6. Senior and Elder care programming including luncheons and recognitions for our older residents.
7. Provide undergraduate/collegiate support for young men that attend every college and university in Washington, DC.
8. Support DC based nonprofits such as Dranref Foundation, the Global Scholars Foundation, and the Lisner Home for the Aged.
9. Provide periodic tours of our Kappa House to the community at large.
10. Provide a space for humanitarian and disaster relief collection for donations and supplies for local, national, and worldwide relief efforts.
11. Partnership with the DC3C Special Education Coop to host quarterly in-house events open to all students with disabilities in the District of Columbia to assist with individualized, and inclusive education preparing them for post-secondary success.
12. Partnership with the Washington Jazz Arts Institute to host quarterly in-house events to assist the WJAI with nurturing young musicians by supporting their efforts to create music and to enter into music related careers. The outreach includes receiving donated instruments and putting them into the hands of aspiring musicians who need them.
13. Partnership with ScientexEdu to host in-house quarterly STEM focused tutoring with the goal of providing math and science tutoring, test prep, mentoring and career planning services for DC college bound students.