

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

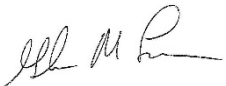


Glen M. Lee
Chief Financial Officer

DRAFT 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 25, 2023**

SUBJECT: **Tax Abatement Financial Analysis - "Society for Science Real Property**
 Tax Exemption Amendment Act of 2023"

REFERENCE: **Bill 25-0183**

Findings

The "Society for Science Real Property Tax Exemption Amendment Act of 2023" (the "Bill") would exempt the properties located at 1719 N Street, NW 1723 N Street, NW, and 800 8th Street, NW (collectively referred to as the "Properties") from real property taxes so long as they are owned and used by Society for Science (the "Applicant").

Based on the financial information provided, the Office of the Chief Financial Officer (OCFO) finds that the proposed exemption on the Properties is not financially necessary for Society for Science to meet its fiscal needs and to execute its planned purchase, consolidation and expansion of its operations at 800 8th Street NW. Without the exemption, Society for Science has the option to withdraw from its contract to purchase 800 8th Street NW and not proceed with its planned renovation. If Society for Science chooses not to continue with the planned renovation, the stated benefits to the District of Columbia (the "District") as set forth in Attachment A, may not occur.

Background

The Applicant is a non-profit organization dedicated to expanding scientific literacy, effective STEM education and scientific research. The Applicant is not a type of organization that is entitled to an administrative exemption from real property tax, and its properties are taxable. The Bill provides a real property tax exemption for three properties. The properties at 1719 N Street, NW and 1723 N Street, NW, known for tax and assessment purposes as Lot 0062 and Lot 802 in Square 158, respectively (the "N Street Properties"), currently operate as the Applicant's headquarters and have been owned by the Applicant and its predecessor organizations since 1941. The Bill does not provide

Tax Abatement Financial Analysis- “Society for Science Real Property Tax Exemption Amendment Act of 2023”

any exemption from the real property transfer or deed recordation taxes, so those taxes would continue to apply to the Applicant’s purchases and sales of real property. The Applicant is the contract purchaser of the third property, located at 800 8th Street, NW and known for tax and assessment purposes as Lot 0031, Square 0404 (the “8th Street Property”). This property currently operates as the headquarters for Hillel: The Foundation for Jewish Campus Life.

Upon purchase, the Applicant will undertake a large-scale renovation of the 8th Street Property, including the conversion of one level of parking to usable floor space. The purchase and renovation will allow the Applicant to house programming and meetings within space that it owns, and to consolidate its office space. According to the Applicant, the renovation is expected to be complete 9 to 12 months after it begins. After completion of the renovation, the Applicant intends to offer the N Street Properties for sale.

Financial Analysis

(A) Terms of the Exemption

The Bill would prospectively exempt the Properties from real property tax beginning with the effective date of the law, for so long as the Properties are owned and used by the Applicant.

(B) Value of the Exemption

As shown in Table 1, the Bill’s proposed tax relief for the Properties is valued at approximately \$1.85 million through the financial plan period and \$12.8 million through 2052. The exemption would continue as long as the conditions specified in the Bill are satisfied. The estimated value of the exemption assumes the sale of the N Street Properties in FY 2026.

Estimated Value of the Proposed Tax Exemption

Real Property Tax Exemption	FY 2024	FY 2025	FY 2026	FY 2027	Total FY24-27	Total FY28-52	Total
<i>N Street Properties</i> Square 158 Lots 62, 802	131,468	134,683	136,164	0	402,315	0	\$402,315
<i>8th Street Property</i> Square 404, Lot 31	327,811	370,219	374,291	378,409	1,450,730	10,939,983	\$12,390,714
Total	459,279	504,902	510,456	378,409	1,853,045	10,939,983	\$12,793,029

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, nor is the Applicant involved contractually with the District of Columbia.

(C) Purpose of the Exemption

According to the Applicant, this tax exemption would allow an expansion of its activities and furthering of its mission to expand science literacy, education and research.

(D) Summary of the Proposed Community Benefits

The community benefits as described 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 audited financial statements for the Applicant’s fiscal years (ending December 31) 2019 through 2022. OFT also reviewed financial information provided by the Applicant pertaining to the planned purchase, renovation, financing and operation of its new headquarters in the 8th Street Property (the “Project”).

The financial statements document the Applicant’s healthy financial position, with a large cash reserve and growth from 2019 to 2021 in net assets without donor restrictions. The Applicant intends to finance approximately \$20 million of the Project with debt and fund the remaining portion with its cash reserves. The Applicant provided a commitment letter from its preferred lender to finance up to \$20 million.¹ The loan terms require the Applicant, as borrower, to maintain revenues (net of expenses) and assets that will meet minimum debt service coverage and liquidity covenants² for the term of the financing. Based on the terms of the commitment letter and the trends seen in the financial statements provided, the Applicant has sufficient cash reserves and unrestricted net assets to make its cash contribution to the Project and meet the debt service coverage and liquidity covenants required by the lender with both the tax burdens of the N Street and 8th Street Properties.

The Applicant did not provide pro-forma income and expense projections for its operations after completion and occupancy of the 8th Street Property. Given the organization’s recent financial trends and the scale of its revenues and expenses, the additional real property tax expense of the 8th Street Property would be manageable. At the completion of the Project in 2025, the estimated additional real property tax liability for the 8th Street property equals 1.2 percent of the Applicant’s average total annual expenses from 2018 through 2022; the total property tax liability of the Properties, including the N Street Properties, is 2.4 percent of the Applicant’s net assets without donor restrictions as reported in 2022. Furthermore, the financial health of the Applicant has allowed it to meet its fiscal needs while shouldering the real property tax obligation on the N Street Properties in the past. It can continue to meet this financial obligation until the N Street Properties are sold.

OCFO’s analysis finds that the exemption is not financially necessary for the Applicant to continue with the Project and to meet its fiscal needs. However, the Applicant’s purchase and sale agreement for the 8th Street Property includes a provision which would allow the Applicant to withdraw from

¹ The lender commitment is for the purchase of up to \$20 million of tax-exempt bonds issued through the District of Columbia Industrial Revenue Bonds program. The lender commitment also offers an additional \$6 million in bridge financing. The loan commitment is unexecuted.

² Debt service coverage ratio is the annual net income, defined in the loan commitment as Income Available for Debt Service, divided by the annual debt service payment. The liquidity covenant requires the Applicant maintain a minimum amount of unrestricted assets (excluding assets with donor restrictions), defined in the loan commitment as Unrestricted Liquidity.

the purchase if the exemption is not granted. Because of the uneven nature of its grant revenues and other financial factors impacting the future resources it has available to meet the proposed debt service commitment for the Project, the Applicant may decide that it does not wish to proceed with the Project if it has to shoulder the expense of the 8th Street Property taxes. If the Applicant decided to remain in its current location or find an alternate location for an expansion of its operations, including a location outside of the District, the stated benefits of the Project to the District may not occur.

Conclusion

Based on its analysis, OCFO finds that exemption of the Properties from real property taxation is not financially necessary. The Applicant's financial position is sufficiently strong to allow it to continue to pay its real property taxes on the N Street Properties and to proceed with its plan of finance for the Project if it so chooses. The Applicant may choose not to proceed with the acquisition and renovation of the 8th Street Property if the exemption is not granted. If an exemption is granted, the OCFO recommends that the terms of the current legislation should be changed from an open-ended exemption to one that is in effect for no longer than the financing term of the Project.

Attachment A

Society for Science is a charitable organization whose primary focus is on expanding scientific literacy, effective STEM education and scientific research. We are seeking a property tax exemption for Society for Science's properties located at 1719 & 1723 N Street, NW as well as the property we are purchasing at 800 8th Street, NW (the "Properties"). The project does not include residential spaces nor will it in the future. The new building purchase will allow Society for Science to expand its office space and programming. However, the bank's commitment to lend is contingent upon confirmation of the 800 8th St. NW property tax exemption.

The requested tax exemption will ensure that Society for Science can continue to provide its programming to those within the District. As well as place the organization in an operational position to continue to do so for one hundred plus years to come. Furthermore, our exemption request is estimated to create between thirty and fifty full-time trade and management personnel for approximately six months. The estimated wages for these positions are \$2,134 weekly for operations and field supervisory roles, \$35 hourly for tradesmen, and \$22 hourly for laborers. We estimate that all labor will have full benefits and we currently do not have any jobs committed to District residents.

Additionally, although the organization has had a worldwide reach, its purpose in keeping its headquarters within the District has been to serve the immediate needs of District residents and to benefit the District community. This can be seen through the Society's many programs, events, award ceremonies and contests that have been held throughout the city. Specifically, the organization has held twenty-six conferences and competitions in the District that have generated over \$6 million in economic impact in the city including bringing revenue to local hotels and businesses. These events include our Regeneration Science Talent Search where students are invited to apply for our top awards and the top 40 Finalists travel to Washington, DC to participate in a week-long competition. Participants also stay at the host hotel the St. Regis, attend an awards gala at the National Building Museum and attend special field trips in the District. As mentioned, Society for Science ensures DC based businesses assist with this event, including the DC caterer Occasions to provide food and service. We also recruit District students and their teachers to attend and local scientists to evaluate the competition. Pre-pandemic in 2019, the event generated nearly \$600,000 in local revenue for the District based on the venues, services and products and has been generating millions of dollars in revenue for the city for the past 82 years.

Additionally, we launched Science News Learning in High Schools as a part of our mission to create a more scientifically literate society. The program provides students with specialized science content with real-world examples, information, and inspiration to transform how they interact with science in the classroom. District schools began participating in the program in 2016 and thirty high schools have participated for an average of three years each, totaling approximately ninety school years of program support. Moreover, an estimated 6,000 students, 450 teachers and 3,600 members of the public residing in Washington, DC were impacted by all Society programs from 2016-2022. In 2022 alone, our organization's programs impacted 684 District students and 48 District teachers. By granting Society for Science a tax exemption, our organization can continue to build and expand its community impact in the District. This tax exemption would also allow us to bring even more visitors to the area, which in turn would generate more income city-wide. All while ensuring that District

Tax Abatement Financial Analysis- "Society for Science Real Property Tax Exemption Amendment Act of 2023"

residents interested in science continue to have the place and space to explore their scientific interests.