

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: **Jeffrey S. DeWitt**
Chief Financial Officer 

DATE: **April 19, 2017**

SUBJECT: **Fiscal Year 2018 Budget Support Act of 2017**

REFERENCE: **Bill 22-244**

The Exemptions and Abatements Information Requirements Act of 2011 requires the Office of the Chief Financial Officer (OCFO) to provide a Tax Abatement Financial Analysis (TAFAs) for certain proposed tax exemptions and abatements.¹ The Mayor's proposed Fiscal Year 2018 Budget Support Act of 2017 includes three proposed tax abatements that require TAFAs – Subtitle (E) of Title II, and Subtitles (C) and (D) of Title VII.² This document consolidates the OCFO's comments and analysis for these three proposed tax abatements.

Subtitle (II)(E) - St. Elizabeths East Campus Redevelopment Fund Establishment Act of 2017

The Deputy Mayor for Planning and Economic Development (DMPED) and Events DC are constructing an Entertainment and Sports Arena (ESA) on a portion³ of the St. Elizabeths East Campus, which is owned by the District. The ESA will be the new home arena for the Washington Mystics,⁴ a practice facility for the Washington Wizards,⁵ and a venue hosting a number of other

¹ Fiscal Year 2012 Budget Support Act of 2011, § 7141, effective September 14, 2011(D.C. Law 19-21; D.C. Official Code § 47-4701).

² The OCFO previously issued a TAFAs encompassing the subject matter of the Supermarket Tax Incentives Clarification Act of 2017, Subtitle VII(F). It accompanied D.C. Bill 21-836, the Food, Environmental, and Economic Development in the District of Columbia Amendment Act of 2016. Available at <https://cfo.dc.gov/node/1197242>.

³ The ESA site encompasses approximately 76,716 square feet located on land known for tax assessment purposes as Lot 815 and a portion of Lot 819 in Square 5868 S. The land is also designated under the District Zoning Code as Parcel StE-12 and a portion of StE-9.

⁴ <http://mystics.wnba.com/>

⁵ <http://www.nba.com/wizards/>

concerts, tournaments, and community events. The District and Events DC are finalizing their ground lease, and Events DC is finalizing its sublease to Monumental Sports (owner of the Mystics and Wizards) with a term of nineteen years. This sublease, which grants certain rights and controls to a private entity for a public facility, will trigger a requirement to pay possessory interest tax for the term of the lease. Based on the terms of the draft lease and sublease terms⁶, all possessory interest payments will be the responsibility of Events DC.

The subtitle establishes the St. Elizabeths East Campus Redevelopment Fund into which the District will deposit any possessory interest⁷ and sales taxes⁸ generated from the ESA being constructed on a portion of St. Elizabeths East Campus, up to a maximum of \$855,000 annually in fiscal years 2018 through 2021. Beginning on October 1, 2021 through the last year that the Events DC ground lease from the District is in effect, the District will deposit all possessory interest and sales taxes generated from the ESA site into the Fund. DMPED can use the Fund's resources to pay for any maintenance, operation, or construction activities on the entire St. Elizabeths East Campus redevelopment site, including the issuance of grants to support these activities.

The subtitle also abates any possessory interest taxes exceeding \$855,000 in fiscal years 2018 through fiscal year 2021.

Findings

Based on OCFO projections in the fiscal impact statement (FIS) for this subtitle, the possessory interest to be generated from the ESA site is not expected to exceed \$855,000 over the four-year financial plan period, and therefore the abatement has no cost. If the projections are correct, the proposed abatement is not needed because there is no value to the abatement.

Based on the OCFO analysis of the draft lease, the potential beneficiary of the abatement is Events DC, in the event that the actual possessory interest assessment imposed at a later time by the Office of Tax and Revenue (OTR) is higher than the forecasted possessory interest payment in the FIS. Because the amount going into the Redevelopment Fund is capped at \$855,000 annually in fiscal years 2018 through 2021, Events DC seeks to limit their possessory interest liability to that same amount of \$855,000.

Subtitle (VII)(C) - Our Lady of Perpetual Help Equitable Real Property Tax Relief Act of 2017

The Archdiocese of Washington owns a vacant parcel⁹ of land contiguous to the grounds of the Our Lady of Perpetual Help parish church. This parcel was taxable until February 1, 2017, when OTR exempted the property pursuant to an application filed in January 2017. Because the grant of administrative exemption was prospective only, the property remained liable for taxes, interest and penalties accruing in prior periods.

The subtitle provides an abatement of all unpaid real property taxes, interest, penalties, fees, and other related charges assessed through February 1, 2017. The proposed abatement has a one-time

⁶ The OCFO has reviewed the draft sublease, which has not yet been finalized. The draft lease provides that Monumental Sports will not be responsible for any possessory interest payments.

⁷ D.C. Official Code § 47-1005.01

⁸ D.C. Official Code § 47-2002

⁹ The subject property is located at 1498 Morris Road, SE in Ward 8 and is known for purposes of assessment and taxation as Lot 37 in Parcel 226.

value of approximately \$69,000. The abatement has no value going forward as the property has been reclassified as tax-exempt.

Findings

The OCFO finds the tax abatement is necessary to ensure Our Lady of Perpetual Help is provided equitable relief from real property taxes that could not be provided under the applicable administrative exemption procedures. The OCFO did not assess the financial condition of the property owner. The OCFO finds the proposed abatement necessary to provide equitable relief, regardless of the financial condition of the Archdiocese of Washington.

Subtitle (VII)(D) International Spy Museum Tax Abatement Act of 2017

The proposed tax abatement was originally analyzed in November 2016 at the request of the Deputy Mayor for Planning and Economic Development. The findings in this tax abatement financial analysis are based on the financial information provided by the Spy Museum at that time and contain updated estimates of the abatement value.

The International Spy Museum, a nonprofit organization supported by the Maltz family, is currently located at 800 F St, NW. In September of 2016, the Museum began constructing a new facility at L’Enfant Plaza (Square 387, Lot 7006) to house a permanent museum. Total construction costs for the new museum are approximately \$120 million. In FY 2016, the District issued \$50 million in industrial revenue bonds to support the construction of the project, with the debt service paid solely from museum revenues.¹⁰ The remaining museum costs are being funded by a donation from the Maltz family.

The subtitle provides a \$30,000 abatement of real property taxes levied for FY 2017¹¹, abatement of any taxes in excess of \$115,000 levied for FY 2018, and abatement of any taxes in excess of \$200,000 levied for FY 2019 – FY 2021. Beginning in FY 2022, all property taxes will be abated, provided the property continues to be used as a museum of the history of espionage and the International Spy Museum remains exempt from District income and franchise taxation.¹² The estimated value of the real property abatement over the next 25 years is approximately \$18.3 million.

Estimated Value of Real Property Tax Abatement for International Spy Museum							
	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY2022- FY2042</u>	<u>TOTAL</u>
Estimated Taxes Due	115,000	115,000	572,000	1,030,000	1,069,000	16,167,106	19,068,106
Payment from Museum	(85,000)	(115,000)	(200,000)	(200,000)	(200,000)	-	(800,000)
Annual Real Property Abatement	30,000	-	372,000	830,000	869,000	16,167,106	18,268,106

¹⁰ As authorized by the International Spy Museum Revenue Bonds Project Approval Resolution of 2016, effective June 7, 2016 (D.C. Resolution 21-500; 63 DCR 8458).

¹¹ If the FY2017 real property taxes have been paid at the time of enactment, OTR would refund \$30,000 of FY2017 taxes to the museum.

¹² The property will also become taxable if it is used to generate income from uses unrelated to this purpose, or if annual use reports are not filed.

Findings

The International Spy Museum provided the OCFO with projected income and cash flow information for its operations in the new facility at L’Enfant Plaza. These projections show:

Average Annual Available Cash (\$ millions)

Average Annual Operating Cash ¹³	\$4.7
less Debt Service ¹⁴	(2.5)
Operating Cash After Debt Service	\$2.2
less Exhibition Refresh Reserve	(1.8)
less Reserve for one-time \$10m principal payment	(0.4)
Available Cash after Debt Service and Reserves	\$0.0

To determine whether the recipient can be reasonably expected to meet its fiscal needs without the proposed abatement, the OCFO considered actions the Spy Museum could potentially take to remain viable if tax abatements were not granted. For example, increasing ticket prices by \$1 (to a price equal to the Newseum) would generate an additional \$700,000 per year. Alternatively, the museum could alter the amount and timing of exhibition refreshes or implement a fundraising effort. Therefore, it is not clear whether the Spy Museum needs an abatement to meet its fiscal needs.

¹³ Earnings before interest, taxes, depreciation, and amortization.

¹⁴ The \$50 million District revenue bond includes a 25-year \$40 million amortizing bond, and a 25-year \$10 million interest-only draw down bond. Annual debt service is approximately \$2.5 million with an additional \$10 million balloon payment in the last year.