

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



Jeffrey S. 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 30, 2018

**SUBJECT:** "Franklin School Real Property Tax Exemption Amendment Act of 2018"

**REFERENCE:** Bill Number 22-764

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**Findings**

The disposition for the Franklin School property, located at 925 13<sup>th</sup> Street, N.W., approved in December 2017, required Franklin School Development LLC ("the Developer"), a for profit entity which is subject to District taxes, solely owned and managed by ABooks LLC, a Delaware corporation, to provide 100% equity to fund an estimated \$25 million in total development costs to renovate the Franklin School property and an additional \$10 million to establish the Museum of Language Arts d/b/a Planet Word, as a nonprofit museum.

The proposed possessory interest,<sup>1</sup> deed recordation and transfer tax exemption offered in the bill is sought by the Developer to facilitate the renovation of the Franklin School property. After renovation, the property will be operated as Planet Word, a District based 501(c)(3) nonprofit, in accordance with the restrictions in the December 2017 ground lease between the District of Columbia and the Developer. Considering the philanthropic efforts by the Developer associated with the creation and operation of the museum, which will be free to the public, the determination of whether or not the proposed exemption is required in order to develop Planet Word,<sup>2</sup> is

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<sup>1</sup> Possessory Interest tax is due from the lessee as the Franklin School property is leased from the District of Columbia and remains a publicly owned building which will be operated for private, museum use.

<sup>2</sup> According to Planet Word press release, "Planet Word's mission is to inspire a love of words and language and increase literacy through a host of interactive exhibits and experiences. Along with the Mundolingua in Paris, Planet Word will be one of just a few fully-operational language museums globally."

inconclusive as it is unclear whether or not the developer would contribute additional amounts to fund the tax or the construction project could be curtailed by an amount sufficient to absorb the tax.

## Background

The proposed legislation would exempt the Developer from possessory interest, deed recordation, and transfer taxes for the property located in Square 285, Lot 808 from December 2017 to December 2020 which is the period estimated to be needed to renovate the Franklin School property for museum use. The Mayor transmitted, and the Council approved disposition of the property to the Developer to renovate the existing Franklin School property into a museum free to the general public. In December 2017, the Developer signed a 99-year ground lease with the District, for \$10 dollars paid annually, which required the Developer to rehabilitate Franklin School property and to operate it as a museum.

The Developer is a privately-owned entity controlled and funded by Ann Friedman, a philanthropist and educator. Upon its completion, estimated to be in 2020, the Developer will transfer the renovated building and 99-year lease to a District incorporated 501(c)(3) nonprofit entity, Planet Word, which will operate the museum. The bill provides a recordation and transfer tax exemption if the lease is conveyed before December 31, 2020. According to information provided to the Office of the Chief Financial Officer (OCFO), the museum “Planet Word” will offer a robust mix of programs to engage citizens and visitors to the District.

## Financial Analysis

The bill states that the Property shall be exempt from possessory interest as long as it continues to be used for purposes permitted under the lease, including the development, design, construction, and operation of a museum of language arts and ancillary uses. The period of exemption as cited in the proposed legislation spans four fiscal years, from December of 2017 to December of 2020.

The OCFO estimates the annual proposed value of the exemptions to be:

<u>Tax</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>Total</u>
Possessory Interest	\$68,175	\$90,900	\$90,900	\$22,725	\$272,700
Recordation and Transfer	\$182,500			\$235,684	\$418,184
Total	\$250,675	\$90,900	\$90,900	\$258,409	\$690,884

Ms. Friedman provided the OCFO with a proposed budget of \$25 million to renovate the Franklin School building and \$15 million to build out the museum’s exhibits. The total projected renovation and build out cost of \$40 million will be funded by Ms. Friedman. The Developer contends that the proposed exemptions from deed recordation, transfer, and possessory interest tax are necessary during the proposed three-year development time frame given the construction costs associated with renovations and build out costs of the Franklin School property and establishment of the Planet Word on the expected timeline and in the highest, community-serving quality.

### Summary of Proposed Community Benefits

The proposed community benefits as submitted by Ann Friedman include a mix of educational and community-based programs:

- Free general admission will be available to all museum attendees. The museum is estimated to attract 150,000 visitors annually.
- An estimated 59 full-time employed personnel will work at the museum, once completed.
- “Wordshops” courses will be open to the public in areas of writing and language arts topics.
- Field trips will be available to the museum for DCPS. The museum will ensure that field trips match the needs and interests of teachers and students in the District. Summer programs will also be offered for District youth.
- Planet Word Language Lab will engage local university linguistics departments to conduct language research with a diverse number of District residents.
- Auditorium programs will allow for student performances, author visits, lectures, and contests as well as public movie screenings.
- Pocket Park, a new courtyard at the rear of Franklin School, will be open to the public.

### **Conclusion**

The renovation of Franklin School into a community-serving museum will be a complex project, funded by private philanthropy. Given the philanthropic efforts by the Developer to facilitate the renovation of the Franklin School property and the establishment of the Planet Word as a world class museum of interactive language arts exhibits and galleries, the OCFO cannot determine if the abatement is required, as it is unclear whether or not the developer would be willing to provide additional funding to cover the tax or limit the project in order to cover the taxes due.