

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

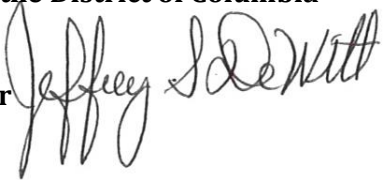


Jeffrey S. DeWitt
Chief Financial Officer

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: **June 2, 2015**

SUBJECT: **Save the Children Job Creation Tax Incentive Act of 2015**

REFERENCE: **Bill 21-166**

Findings

The proposed bill, Save the Children Job Creation Tax Incentive Act of 2015, would provide a partial abatement of real property taxes on commercial office space leased by Save the Children at 899 North Capitol Street, NE. Under the bill, Save the Children would receive \$1.65 million in abatements over 10 years as long as it meets certain job hiring requirements. The Office of Economic Development Finance (EDF) has determined the proposed tax abatement is not necessary for the entity to meet its fiscal needs nor is it likely to impact job creation.

Background

Save the Children (STC) currently houses 280 employees in leased space at 2000 L Street, NW. Through their lease they are responsible for paying the real property taxes. STC entered into a non-binding letter of intent in April 2015 for approximately 55,000 square feet of commercial office space in an existing building located at 899 North Capitol Street, NE. STC intends to move into this new space between December 15, 2015 and March 31, 2016.

Through the proposed legislation, STC is requesting a tax incentive to keep their offices in the District. Specifically, they are requesting a partial real property tax abatement to offset the increase in real property taxes it will incur at the North Capitol Street location. In return, STC is committing to certain new-District-hire thresholds as described below.

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by EDF to contain certain information. The required information is included below.

A separate fiscal impact statement will be prepared on the proposed legislation.

Terms of the Exemption or Abatement

The proposed legislation provides an annual abatement of \$3.00 per square foot on the office space occupied by STC for a period of 10 years. In order to receive the abatement, STC must submit proof to the Chief Financial Officer¹ demonstrating it meets certain conditions. STC can earn the abatement over time by submitting an annual application or it can apply for the full amount of the abatement once it reaches an overall hiring goal.

The annual requirements include the following and involve STC submitting proof each condition was met on or before December 31st of each year:

- A. Employing 10 new hires during the calendar year, of which at least 3 must be District residents
- B. Maintaining employment of at least 280 persons at the site for the duration of the 10-year period
- C. Having responsibility for paying property taxes (either as lessee or owner)
- D. Continuing to occupy space at 899 North Capitol Street, NE (either as lessee, sub-lessor or owner)

Alternatively, STC could earn the full amount of the abatement once it hires 30 or more District residents. After submitting proof of the 30 hires, STC would not need to submit any additional documentation to continue claiming the abatement.

Annual Proposed Value of the Exemption or Abatement

The total value of the abatement is \$165,000 annually. The total value cannot exceed \$1.65 million over 10 years.

Estimated Value of Property Tax Abatement for Save the Children						
	FY 2016	FY 2017	FY 2018	FY2019	TOTAL FY 2020 – FY 2025	TOTAL FY 2016 – FY 2025
Real Property Tax Abatement ²	\$165,000	\$165,000	\$165,000	\$165,000	\$660,000	\$1,650,000

Summary of the Proposed Community Benefits

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

¹ The Office of Tax and Revenue will be recommending technical changes to the process for reviewing and approving the abatement application submitted by Save the Children.

² Save the Children noted it intends to amend its request to \$150,000 annually with a total cap of \$1,500,000.

Financial Analysis for an Entity Based on a Policy Goal

Review and analysis of the financial condition of the recipient or of the public policy goal intended to be addressed and whether or not recipient could be reasonably expected to meet its fiscal needs without the proposed exemption or abatement or whether the proposed exemption or abatement can reasonably be expected to meet the proposed public policy goal.

Save the Children provided EDF with a signed letter of intent to lease space at 899 North Capitol Street NE, financial statements, and estimated rent and expenses for the new building. Based on EDF’s review of the information, the proposed abatement is not necessary for Save the Children to meet its fiscal needs. Save the Children operates a \$680 million organization with net operating income averaging \$2.4 million over the past four years. Its net assets totaled approximately \$200 million as of December 31, 2013. Of this amount, approximately \$7 million was unrestricted and undesignated. Considering the amount of its reserves, the organization is financially stable and does not need this abatement to remain in business.

The abatement as proposed is an inefficient mechanism for meeting resident hiring targets if the public policy goal is to put District residents to work. As structured, the bill subsidizes STC approximately \$55,000 per District employee. Further the legislative definitions of “new hire” and “resident” are overly broad allowing STC to count temporary, consulting, contracting, and part-time³ positions with minimum employment duration of two months and all individuals who become District residents within 180 days of their employment start date. In comparison, job creation tax credits in Maryland are limited to \$1,500 per new job and require firms to create full-time positions.⁴

³ Save the Children noted it intends to amend its definition of new hire to include only “full-time” positions.

⁴ Maryland Department of Business and Economic Development, “Job Creation Tax Credit,” accessed May 19, 2015, <http://business.maryland.gov/fund/programs-for-businesses/job-creation-tax-credit>

Attachment
Community Benefits – Save the Children
(Submitted by Save the Children)

Highlights of Direct Benefits to the District and its Residents

- Capital Investment in DC - \$110 per square foot in building totaling = \$6,050,000
- Substantial Job Creation within 3 – 5 years: 100+ new positions including any of the following categories – new FTE and PTE hires, temps, contractors, consultants, and interns
- Wages and Benefits for these new positions range from \$24 per hour to \$54 per hour.
- Commitment that one out of every two new hires will be District residents
- All new positions will be posted and advertised in the District to DC Residents
- Tax Abatement directly correlated to new DC hires on annual basis
- Plan to create health and nutrition awareness programs for DC children in Wards 7 & 8
- Emergency Response Training for DC public and private schools
- Occupy “Vacant” Building in NoMa
- Currently 280 employees of which 70% or 196 are DC residents
- Inclusion of DC Minority owned businesses for service contracts, construction and renovation needs in all requests for proposal activity

Highlights of Indirect Benefits to the District and its Residents

- Literacy program in DC since 2011 provides 450 DC children ranging from ages 5-12 necessary tools to develop reading skills.
- Early Steps programs in DC for children from 0-5 assists children with language, social and emotional development.
- Nutritional Training Program in DC aims to increase regular physical activity and healthy food choice serving children from 5-12.
- Training children and parents on best practices for safety during disasters.
- Free Teen Volunteer Babysitting program available for parents in need.
- Program designed for early Ebola detection.
- Program to raise HIV/AIDS awareness and epidemics in children.
- Community training for families to prepare for terrorism or other emergencies.
- Offers afterschool programs, summer camps and local fairs.
- Programs designed to protect and support orphaned children.
- Programs to provide families in financial need with basic nutritional needs.

- Save the Children holds several major conferences in DC annually. Over 270 participants from 26 states and six countries traveled to Capitol Hill.
- Partnerships with many DC based organizations or local branches of national organizations.

Additional Information Regarding Benefits and core Washington DC programs

Taking learning’s from the Neval Thomas Elementary School which piloted in 2011 and ran through 2014 and the early 2015 results from our Get Ready-Get Safe program, we can begin the evaluation of exploring new start-up activity in Wards 7 & 8 during the upcoming 10 years of abatement eligibility 2016-2026.

Start-up activity is based on applying for US Government Grant funding and supportive fundraising from our internal teams. The estimated annual cost of the programs we ran at the Neval Thomas Elementary School was \$200,000 and the Get Ready-Get Safe program costs are estimated at \$100,000.

After we move to our new location, we would initiate writing RFA’s for grants and work in compliment with our 2017-2018 budget cycle. Once awarded or have secured a sustainable funding source, we would evaluate activity in the areas noted below.

- **The Early Steps to School Success Program** is designed to assist children, from prenatal to age 5, with language, social and emotional development; to equip parents with the skills and knowledge to successfully support their child’s growth; and to develop strong home-school connections. Ages 0–5
- **The 21st Century Literacy Program** piloted in Washington, DC in 2011. The Program provides children in kindergarten through sixth grade with the opportunity to increase their reading achievement by supplying the tools they need to develop reading skills and the guidance and support they need to grow as readers. We currently partner with 1 school, serving 450 students. Ages 5–12
- **The Healthy Choices Program** aims to increase access to regular physical activity and healthy snacks as well as nutrition education to increase children’s knowledge of healthy living. Ages 5–12

We can baseline from the early program pilot results noted below and work with DC Ward 7 & 8 representatives to select a pilot school in each ward. Start-up dates to be determined based on school readiness and assessments but we can include this work during the approved 10 year abatement period.

Literacy Results: Children in our program read an average of 46 books during the school year and more than 45% of participants showed significant reading improvement. On average, literacy improvement among program participants was equivalent to an additional 1 month of schooling.

Health Results: Children participated in an average of 30 minutes of physical activity per day and were introduced to nutritious snack options.

National Early Steps Results: 80% of 3-year-olds in our Early Steps program scored at or above the normal range for vocabulary acquisition.

As noted, we would also plan to introduce our new Get Ready-Get Safe program. The Get Ready-Get safe initiative helps communities meet new national standards and integrate best practices for supporting children’s safety and well-being during disasters through preparedness planning and programs. Ages 0–18. Specific to DC, at the end of April our Get Ready-Get Safe artist ambassador, Lassie, is coming to town to celebrate National Prepareathon.

Our “Prep Rally” team is already in discussions with Alpha Phi Omega chapters at local universities (American, GW, Georgetown, Catholic and Howard University). APO is a coed community service fraternity. It is also working with the DC Department of Parks and Recreation where we already have a national-level partnership with Parks and Recreation organizations, and hope to offer a more tailored curricula for Parks and Rec professionals. Plans also include the DC Library where we will be looking to share our emergency preparedness reading list with DCPL, and I’ll be looking for a library that would be interested in hosting a Prep Rally.

In addition, I’ll be looking to list the opportunity to host a prep rally on Serve DC’s website, as well as on the DC Youth Link website, to highlight it as a potential service project.

Ongoing US Government Funding is needed for both areas in order for Save the Children to create and achieve a sustainable model over the 10 years of the abatement eligibility period. We will supplement these efforts as noted with our internal Fundraising teams.

Notably, these community benefits and amenities are additional benefits that Save the Children will afford to the District and are not required by any other law.

The monetary value of the proposed community benefits is estimated to be \$20,403,808 over the course of the 10 year tax abatement term.