

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: **December 11, 2018**

SUBJECT: **Amendment #1 to the "Local Jobs and Tax Incentive Amendment Act of 2018"**

REFERENCE: **Amendment #1 to Bill 22-918**

Findings

The proposed amendment would provide a real property tax abatement to Chemonics International ("Chemonics") over an 8-year period beginning October 1, 2022, with a maximum annual value of \$650,000 for a total abatement value of \$5.2 million¹. Based on the existing profitability of the company, the proposed abatement is not necessary for Chemonics to meet its financial needs.

Please refer to the separate Fiscal Impact Statement for the effect of the proposed legislation on the District's financial plan.

Background

Subsequent to the Tax Abatement Financial Analysis issued on November 14, 2018 for Bill 22-918 the "Local Jobs and Tax Incentive Amendment Act of 2018", the bill was amended to add a separate abatement for Chemonics. This TAFE applies only to the amendment and does not alter the findings of the November 14, 2018 TAFE.

Chemonics is an employee-owned for-profit international aid company providing services in 70 countries. Chemonics is seeking a new single location to replace its existing headquarters which is

¹ The amendment provides an abatement for the eight years between October 1, 2022 to October 1, 2030. The OCFO has been informed the abatement period may be increased to nine years to begin October 1, 2021. In such case, the overall value of the abatement increases to \$5.85 million.

currently split between Washington, DC and Arlington, VA. Chemonics is currently considering leasing office space (which has yet to be constructed) on the northwest corner of New Jersey Avenue, SE and N Street, SE, known for taxation purposes as Square 0743, Lot 0094.

Tax Abatement Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the Office of the Chief Financial Officer (OCFO) to contain the following information:

(A) Terms of the Abatement

The legislation states the property shall receive a real property tax abatement of up to \$650,000 per year for eight years, beginning in fiscal year 2023, so long as Chemonics meets the following requirements:

- 1) Chemonics must execute a lease for office space on the northwest corner of New Jersey Avenue, SE and N Street, SE, known for taxation purposes as Square 0743, Lot 0094.
- 2) The lease must be for at least 240,000 square feet and for a term of at least 12 years.
- 3) The lease must be executed before January 31, 2019.
- 4) Chemonics must meet employment targets of approximately 1,200 employees.²

Based on reporting information received from Chemonics, the Mayor shall certify to the Office of Tax and Revenue the property’s eligibility for the property tax abatement to be applied each year.³

(B) Value of the Abatement

Based on the terms of the abatement, the maximum value of the abatement is \$5.2 million as shown below.

Value of Abated Taxes⁴

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023- FY 2030	TOTAL
Abated Real Property Tax	\$0	\$0	\$0	\$0	\$5,200,000	\$5,200,000

(C) Purpose of the Abatement

The purpose of the abatement is to reduce the costs of consolidating its multiple headquarters into a new location within the District. According to Chemonics, the abatement improves its

² The amendment states that Chemonics would enter into an incentive agreement with a District employment target of approximately 1,200 employees. It further states the amount of the abatement could be reduced if the employment target is not met; however, there are no specifics on the amount, if any, of such a reduction.

³ Since real property tax is levied on the property, not the lessee, the property would receive the tax reduction resulting from the abatement, not Chemonics. The legislatively approved abatement will flow through to Chemonics via its lease terms with the landlord.

⁴ As discussed in footnote 1 above, the term of the abatement may increase from eight to nine years, increasing the value to \$5.85 million.

competitiveness and creates value for its employees because Chemonics is an employee-owned company.

(D) Summary of the Proposed Community Benefits

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

(E) Financial Analysis and Advisory Opinion

Chemonics provided financial data⁵ to the OCFO which showed that the company has earned an average profit of \$19 million per year on \$550 million per year in annual revenues. The proposed abatement could increase its average profit margin from 3.5 percent to 3.6 percent.

Research indicates that tax incentives are generally not a critical factor in corporate locational decisions. In particular, a skilled workforce, good public transportation, and quality of life are almost always more important factors, and the concentration of those amenities in the District is the reason District rents are typically higher than in surrounding areas. Without fully understanding the criteria Chemonics is using to make its locational decision or knowing which other cities are being considered, the OCFO cannot opine definitively on the necessity of the subsidy.

Conclusion

The 8-year real property tax abatement proposed by the amendment to Bill 22-918 is not necessary for Chemonics to meet its financial needs.

Please refer to the separate Fiscal Impact Statement for the effect of the proposed legislation on the District’s financial plan.

⁵ Chemonics provided selected financing information via email, without submitting audited financial statements. The findings in this TAFE rely on the validity of the data provided by Chemonics.

Attachment: Applicant Provided Statement of Community Benefits

Jobs Impact

- 600 full time employees currently work in DC;
- Upon completion of construction in late 2021, we expect to have slightly more than 1,200 employees working in DC. This translates into about 600 new DC jobs;
- Jobs include everything from finance and IT to communications and supply chain logistics.
- A little more than 50% of our employees currently live in the District and we expect this trend to continue;

Other Community Benefits

- 400 internship opportunities for DC residents over the next 10 years;
 - Provide a preference for residents from under-represented backgrounds, and a preference for the provision of advanced technical skills (i.e. data analysis, etc.).
- Contract with Certified Business Enterprises for at least 35% of the contract dollar volume of the project improvement build out costs;
- Enter into a First Source Agreement with the Department of Employment Services regarding job creation and employment generated as a result of the construction on the Property;
 - Develop a curriculum and run program (in partnership with DC government or other partners) to train high school students in tech entrepreneurship, through Summer Youth Employment Program internships
 - Offer a career training program for District residents, by providing opportunities within Chemonics internship and college team programs
- Sponsor at least four diverse/inclusive nonprofits or their events each year (i.e. Beacon, In3, FemTech Awards, US International Council on Disabilities, Greater Washington Hispanic Chamber of Commerce, etc.);
- Host or attend at least 12 events with Universities or other recruiting organizations each year;