

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

A handwritten signature in black ink that reads "Jeffrey S. DeWitt".

DATE: **June 30, 2020**

SUBJECT: **"New Howard University Hospital and Redevelopment Tax Abatement Act of 2020"**

REFERENCE: **Bill 23-778**

Findings

The proposed bill would abate real property taxes on certain properties currently owned by Howard University (the Property). The real property tax abatement would last for up to 20 tax years and cannot exceed \$225 million in total. Receipt of the abatement is conditioned upon meeting terms specified in the legislation, including an annual certification by the Mayor to the Office of Tax and Revenue (OTR) that the Property continues to be eligible for the abatement.

The abatement is intended to provide a financial benefit to Howard University that can offset the cost of the new Howard University Hospital (the New Hospital). In entering into a development partnership for the future private redevelopment of the Property, the value of an abatement on the Property could be monetized by Howard University to fund a portion of the New Hospital.

Based on the estimated cost of the New Hospital and the estimated potential monetized value of the abatement, additional sources of funding will be needed to meet the New Hospital's capital needs. Office of the Chief Financial Officer (OCFO) requested financial information from Howard University to conduct a thorough review of the development. Although Howard University sees the full abatement amount as a critical component of the New Hospital's funding plan at this stage of the project, a funding plan is not yet defined. Without information on the planned sources of funding available for the New Hospital, the OCFO's Office of Finance and Treasury is unable to determine the amount of abatement that is financially necessary.

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

Background

The Property is part of the larger redevelopment of Howard University’s campus. The Property, consisting of the current Howard University Hospital site and adjacent parcels, is comprised of the following seven tax lots:

SSL	Address	Current Use
Square 3065, Lot 829	2230 6th Street, NW	Warehouse and vacant land
Square 3065, Lot 830	614 Bryant Street, NW	
Square 3065, Lot 831	2216-2220 6th Street, NW	
Square 3074, Lot 11	2139 Georgia Avenue, NW	Medical office building
Square 3075, Lot 807	2041-2121 Georgia Avenue, NW	Hospital
Square 3072, Lot 52	401 V Street, NW	Parking garage
Square 3080, Lot 73	400 V Street, NW	Parking garage

The abatement is intended to partially fund the construction of the New Hospital. In partnership with Adventist HealthCare, Howard University plans to construct the new 220-bed teaching hospital and Level 1 Trauma Center on an adjacent site within the University’s Georgia Avenue, N.W., campus.¹ The New Hospital has an estimated construction cost of \$450 million to \$600 million and is planned to be completed by 2025. With the opening of the New Hospital, Howard University will be able to redevelop the site of the current hospital. The redevelopment is generally intended to result in a vibrant mixed-use project, integrated with the surrounding neighborhoods, that includes varied uses, such as residential (including a significant component of affordable and workforce housing), market and neighborhood-serving retail, hospitality, and office uses. Howard University estimates that the Property has a potential maximum development potential of nearly 3.5 million gross square feet. Howard University seeks to develop the Property under unsubordinated long-term ground leases with private developers, with Howard University as lessor and the private developer as lessee.

Financial Analysis

D.C. Official Code § 47–4701 requires the analysis provided by the Office of the Chief Financial Officer (OCFO) to contain certain information. The required information is included below.

Terms of the Exemption or Abatement

The bill abates the Property’s real property tax liability for up to 20 tax years, up to \$11.125 million per year, for a maximum of \$225 million. Initial receipt of the abatement is conditioned upon meeting several requirements set forth in the bill, including requirements related to execution of a First Source Employment agreement and Certified Business Enterprise agreement; the construction of the New Hospital opening by October 1, 2026, which must continue to operate while the abatement is in effect; continued operation of the existing Howard University Hospital until the New Hospital opens; the continuous operation of centers of excellence starting by October 1, 2021, subject to availability

¹ The New Hospital is proposed for Square 3069, Lot 0065 on the north side of W Street NW adjacent to the current site. The New Hospital will include above and below-grade parking and will provide room for expansion of the hospital to 350 beds.

Tax Abatement Financial Analysis – “New Howard University Hospital and Redevelopment Tax Abatement Act of 2020”

of certain District funds for that purpose; and submission of a redevelopment plan for the Property by October 1, 2021 and every six months thereafter. Receipt of the abatement also requires the Mayor to certify the Property’s eligibility annually to OTR and to notify OTR if the Property loses eligibility. The abatement shall begin no earlier than October 1, 2024 (tax year 2025) and must terminate by the end of tax year 2048.

Annual Proposed Value of the Exemption or Abatement

The table below provides the estimated value of the abatement.

Estimated Value of the Proposed Tax Abatement (in \$Millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Total to FY 2024	FY 2025 To FY 2048	Total to FY 2048
Real Property Tax Abatement	\$0	\$0	\$0	\$0	\$0	\$0	\$222.5	\$222.5

The estimate is based on the maximum annual abatement amount available under the terms of the abatement of \$11.125 million.² The actual amount of the abatement will depend upon the taxable assessed value and uses of the Property in any year the Property is eligible for the abatement. The abatement requires no funds to be budgeted in the fiscal year 2020 budget or the proposed fiscal year 2021 through fiscal year 2024 budget and financial plan.

Summary of the Proposed Community Benefits

A summary of the proposed community benefits associated with the construction and operation of the New Hospital and the redevelopment of the Properties, provided by Howard University, is attached to this analysis.

Financial Analysis for Development Projects

According to available information, the cost of the New Hospital is estimated at \$450 to \$600 million.³ Howard University can monetize the value of the abatement through partnership with private sector developers to redevelop the Property for private, taxable use. The monetized value of the abatement to Howard University could vary substantially depending on the terms of its redevelopment partnerships with private developers and the intended uses of the Property, but is estimated at up to

² Howard University notes that the \$225 million total abatement in the LOI with the District represents a maximum of \$11.25 million annually.

³ The press statement issued by Mayor Muriel Bowser on April 29, 2020, estimated the cost at \$450 million. The press statement released by Howard University on April 30, 2020 includes an estimated cost of \$600 million. The difference may be attributed to differences in the scope of the hospital project referenced in each statement.

approximately \$185 million.⁴ This is in addition to the value Howard University receives from its land contribution in its private redevelopment partnership.⁵

According to Howard University, the potential proceeds from monetization of the proposed tax abatement will be a key component of the New Hospital’s capital funding. Other potential sources of investment or subsidy identified by Howard University include federal appropriation⁶; equity contributions from Howard University and/or its healthcare partner, Adventist HealthCare; and potential debt. Because the New Hospital project is in an early stage of development, Howard University is unable to provide more information on the potential value of other funding sources or the amount of debt that the project could support.

Conclusion

Without more specific information on funding sources available to Howard University to fund the New Hospital, OCFO cannot determine if the abatement provided by the bill is financially necessary, or the amount of abatement that would be financially necessary.

⁴ The estimate, from the Office of Finance and Treasury, is based on the \$11.125 million maximum annual amount of the abatement at a capitalization rate of six percent. Howard University estimates the monetized value at approximately \$100 million. The value of the abatement to a private development partner, and the financial benefit of the abatement passed on to Howard University, would depend on many factors including the amount of tax liability of the proposed development, the contribution of the abated taxes to the developer’s increased net operating income, and the capitalized value that the development partner and Howard University would attribute to the increased income based on the property use and the term of the abatement. The abatement would increase the property value by increasing the amount of revenue and return that the Property would be expected to produce for the developer.

⁵ The value of the ground lease in a development partnership is difficult to estimate at this preliminary stage. However, based on assessed value estimates provided by Howard University using preliminary information, the Property when redeveloped could have a total value of approximately \$1 billion. At a benchmark of five to 10 percent of the Property’s total redeveloped value, the land could be preliminarily estimated to be worth \$50 to \$100 million. It is unclear whether any value from the conveyance of a ground lease would be contributed by Howard University as a source of funding for the New Hospital.

⁶ According to Howard University it has requested a Federal appropriation for as much as \$77 million in the Fiscal 2021 appropriations cycle.

Attachment: Summary of Community Benefits Provided by Howard University

The primary public benefit from the tax abatement is the development of the New Hospital, which will address critical healthcare needs for District residents, especially underserved populations. In addition, this project will continue to advance Howard’s commitment to educating African American Scholars and catalyzing development along the Georgia Avenue corridor.

The HUH continues Freedman’s Hospital’s legacy of giving back to the community by serving as the nation’s primary training facility for minority physicians working in medically underserved areas, which benefits hundreds of cities and rural areas across our nation.

The following summarizes some of the key community benefits to be derived from the Project:

Addressing Critical Healthcare Needs

Despite a strong overall health system, a significant number of residents in District neighborhoods continue to experience poor health outcomes including in neighborhoods near the existing HUH. An antiquated building prevents the HUH from delivering care at its full potential. The Project will ensure that high quality medical services are provided to District residents, particularly those in underserved communities.

The Project will enhance the HUH’s local impact which includes:

- \$70+ million in free medical care through Charity and Uncompensated Care Policies
- Over 100 community programs and services - free cancer screenings, back-to-school physicals, tobacco control, and dental services

Create Centers of Excellence

These centers will focus on sickle cell, women’s health, oral health, trauma and violence prevention, and substance use and co-occurring disorders. These Centers of Excellence will provide care and services tailored to the specific needs of our community and allow the HUH to continue to play a critical role in helping us eliminate long-standing health disparities.

Educating Top African American Scholars

Howard is the largest training institution for minority physicians in the nation and places over 50% of its graduates back into minority communities. The HUH provides training for 475 medical students and 260 residents across 23 specialty areas and has graduated over 10,000 physicians in its history – producing more African American physicians than any other institution.

A new, modern, efficient teaching hospital is critical for training the coming generations of medical professionals. The Project will allow Howard to continue training and equipping physicians, pharmacists, dentists, nurses and allied health professionals to deliver care to underserved populations across the U.S.

In addition, a new lab-intense health science complex will enhance innovative research to support medical professionals solving today’s challenges.

The Project will provide the ability to continue and increase Howard’s research capacity – particularly cancer and HIV research – in more advanced, modern, interdisciplinary facilities.

Catalyzing Economic Development along the Georgia Avenue Corridor

The activation of the Redevelopment Sites will vitalize the Georgia Avenue commercial corridor with a vibrant mix of more intense uses, offering new retail and amenities to pedestrians and broader community constituents. This transit-oriented development will contribute to the vitality of District neighborhoods, create new jobs, and generate additional revenue for the District government.

Foster Job Creation for District Residents

The Project will create both construction and permanent jobs. The First Source employment agreement will guarantee new jobs for District residents. Based on the proposed development plan, preliminary analyses suggest that the Project may generate approximately 2,100 construction jobs (including 500 District residents) and approximately 4,500 non-construction jobs to support the non-residential commercial uses.

Small and Minority Business Participation

The Project will require that at least 35% of the contract dollar volume of the mixed-use Redevelopment Sites, and the development and operation of the New Hospital be provided to business enterprises or joint ventures certified pursuant to the Small and Certified Enterprise Development and Assistance Act of 2005.

Workforce Development Opportunities

In line with Howard’s current mission-based real estate development prerogatives, the Project will also seek to create opportunities for workforce development in the form of internships, scholarships, and opportunities for minority and Howard alumni equity participation.