

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



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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: **July 16, 2020**

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

REFERENCE: **Bill 23-778, Committee Print draft dated July 15, 2020**

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 be available until 2048 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 future 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. Howard University is in the early stages of developing and securing full funding for the New Hospital. Based on the information provided by Howard University at this early stage in the process, the abatement appears to be financially necessary, if the District would like to support the development of the New Hospital. However, this finding is based on preliminary information on the New Hospital's funding sources, a preliminary estimate of the development cost of the New Hospital, and a preliminary estimate from Howard University on the monetized value of the abatement.

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 eight 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 3065, Lot 33 | 2206 6 th 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 According to Howard University, the New Hospital 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. The real property tax abatement on the Property will increase the value of the ground lease payments that the lessee is willing to pay the lessor by increasing the revenue that the lessee is able to generate from the Property.

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 \$11.25 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, Certified Business Enterprise agreement, and Project Labor

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.

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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 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

| | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | Total to FY 2024 | FY 2025 - 2048 | Total to 2048 |
|-----------------------------|------------|------------|------------|------------|------------|---------------------|-------------------|------------------|
| Real Property Tax Abatement | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$225,000,000 | \$225,000,000 |

The estimate is based on the maximum amount available under the terms of the abatement. 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 Howard University, the cost of the New Hospital is estimated at \$650 million.² Howard University provided preliminary sources of capital funding for the New Hospital found in the table below, of which the monetized value of the proposed abatement is one of several funding sources.

² 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. Howard University attributes the increased cost estimate to the inclusion of the cost of constructing parking for the New Hospital.

Howard University’s New Hospital Funding Plan

| Source | Estimated Amount |
|--------------------------------|-------------------------|
| Federal Appropriations Grant | \$300,000,000 |
| District Infrastructure Grant | 25,000,000 |
| Partner Investment | 50,000,000 |
| Taxable Debt | 100,000,000 |
| Monetized Abatement | 100,000,000 |
| Other Sources to Be Identified | 75,000,000 |
| TOTAL SOURCES | \$650,000,000 |

Howard University can monetize the value of the abatement through partnership with private sector developers to redevelop the Property for private, taxable use. Monetizing the abatement will provide Howard University with up-front funding for the benefits that the abatement will provide starting in 2025 at the earliest. The value of the monetized abatement could vary substantially depending on the terms of its redevelopment partnerships with private developers and the intended uses of the Property. The private development partners have not yet been identified and no negotiations on the value of the ground lease have commenced. Howard University preliminarily estimates the monetized abatement value at no more than approximately \$100 million.³ This is in addition to the value Howard University will receive from its ground lease contribution to the private redevelopment partnership.⁴

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. Howard University does not believe it can raise more from the other sources identified, including federal appropriations over several years; equity contributions from Howard University and/or its healthcare partner, Adventist HealthCare; potential debt supported by the New Hospital’s projected revenues; and additional funding from the District for infrastructure. Howard University acknowledges that their plan of finance is preliminary and is likely to change over time.

³ Howard University’s calculation of the monetized value discounts the estimated value of the abatement in future years, starting in 2026, using a discount rate of six percent. The calculation discounts the future annual abatement values to 2022 when the funds will be needed, resulting in a 2022 discounted value of \$93.6 million. The Office of Finance and Treasury reviewed the calculation and finds it to be reasonable given the preliminary nature of the analysis. Howard University believes that future annual tax abatement values may need to be discounted at a higher rate, which would further reduce the monetized value.

⁴ 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, 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. Land value comparables from OCFO’s Office of Tax and Revenue suggest a land value estimate between approximately \$25 and \$50 million. The capitalized value of a ground lease interest would be lower than the land value.

Conclusion

The preliminary funding plan from Howard University indicates that the estimated monetized value of the abatement will fill approximately \$100 million of a \$175 million funding gap between the estimated cost of the New Hospital -- \$650 million – and the sources of funding Howard University expects will be available from other sources -- \$475 million. Based on this information, the abatement appears to be financially necessary, if the District would like to support the development of the New Hospital. However, this finding is based on the information available at this stage of the development. A decrease in the estimated cost of the project, or changes to the sources of funding available to Howard, could impact the necessity of the abatement. Because of the preliminary stage of the project’s development, the Office of Finance and Treasury did not receive information about the funding sources presented, including a calculation of the debt that hospital operations could support; the financial capacity of Howard University or Adventist HealthCare to support equity contributions at the proposed or higher amounts; and the monetized value that the future tax abatement will actually yield when a redevelopment partnership is negotiated with a private developer or developers. Howard University considers the abatement to be a critical component of its funding plan and its approval at this stage of development to be key to securing the other planned sources of investment.

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.