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

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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:	**September 22, 2020**
SUBJECT:	**"Spring Flats Mixed-Income Family Apartments Real Property Tax Abatement Act of 2020"**
REFERENCE:	**Bill 23-608**

Findings

The proposed bill would provide real property tax, recordation, and transfer tax abatements and exemptions to the property at 1001 Spring Road, N.W.[1] (the Property), provided that any portion of the Property is exempt from real property tax pursuant to District of Columbia Code § 47-1005.02. As currently drafted, the abatement and exemptions provided in the proposed bill would be effective prospectively from enactment of the bill and would be applicable upon the date of inclusion of their fiscal effect in an approved budget and financial plan.

Based on the OCFO's analysis, a real property tax abatement is financially necessary if the District would like to financially support an enhanced level of services for the operation of permanent supportive housing at the Property. The abatement is financially necessary for 15 years and should be contingent upon provision of the proposed enhancements. An exemption from recordation and transfer taxes is not financially necessary, because, based on the information provided, no such prospective tax liabilities are foreseeable with respect to the Property while the recommended real property tax abatement would be in effect. Fiscal Year 2020 tax liability can be absorbed by the Property's development budget, and therefore retroactive application of the abatements and exemptions is not 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.

[1] The Property is currently designated as Lot 150 in Square 2902 for assessment and taxation purposes. As noted below, this lot will be retired and replaced by new lots beginning with tax year 2021.

Background

The Property is owned by the District. The Deputy Mayor for Planning and Economic Development (DMPED) conveyed a 99- year ground lease on the Property to Spring Flats Family, LLC (the Applicant), in April 2020. The Applicant is controlled by Victory Housing, Inc., a non-stock corporation and Brinshore Development, LLC.[2]

The Applicant will develop the Property into 87 units of mixed-income, multifamily rental housing for families, in a building to be known as The Robeson. The Property is located in the Columbia Heights neighborhood in Ward 4 and has been known for tax and assessment purposes as Lot 150 in Square 2902.[3] It is one component of the Spring Flats Community redevelopment, which will also include The Appleton, 88 units of affordable rental housing for seniors; and Spring Flats Townhomes or The Rows, consisting of 10 for-sale townhome units. The Spring Flats Community redevelopment also involves the reconstruction and rededication of a portion of 10th Street, N.W. between Spring Road, N.W. and Quebec Place, N.W., a new pocket park, public art, and a community meeting space.

The Robeson will include 58 units restricted for families with incomes at or below 50 percent of the median family income, including nine units of permanent supportive housing for formerly homeless individuals who will receive Local Rent Supplement from the DC Housing Authority. The development of these 58 units will be supported by 4 percent Low Income Housing Tax Credits (LIHTC) and tax-exempt bonds as well by a loan from the Department of Housing and Community Development's (DHCD) Housing Production Trust Fund (HPTF). The remaining 29 units will be marketed to households with incomes at approximately 120 percent of median family income. A contribution from the Applicant, in the form of a subordinate loan, will complete the funding needed for these 29 units, in addition to the senior debt that will finance the development of the building. The table below summarizes the funding sources and uses for the building's 87 units.

Funding Sources and Uses for the Robeson (in $ Millions)

Source	Amount ($M)	Uses	Amount ($M)
Senior Debt	$19.3	Acquisition	$0.0
HPTF (Restricted Units)	10.4	Construction	28.3
LIHTC Equity (Restricted Units)	8.1	Soft Costs	4.6
Deferred Developer Fees	1.8	Financing Costs and Reserves	4.2
Developer Loan (Workforce Units)	2.5	Developer Fee	5.0
Total Sources	**$42.1**	**Total Uses**	**$42.1**

[2] The Applicant will enter into a sublease with Spring Flats Workforce LLC, which will own the workforce housing units. Spring Flats Workforce is also controlled by Victory Housing Inc. and Brinshore Development LLC.

[3] As part of the redevelopment, Lot 150 is being retired and will be split into new Lots 810, 8000and 8001-8009 beginning with tax year 2021. Lots 810 and 8000 comprise the LIHTC portion of the development and are exempted under a Department of Housing and Community Development (DHCD) exemption certification. Lots 8001 through 8009 will represent the portion of the development not covered by the DHCD certification.

The portion of the Property representing the 58 units developed with LIHTCs has an exemption from real property, possessory interest, transfer and recordation taxes under a certification issued by the Department of Housing and Community Development (DHCD) pursuant to District of Columbia Code § 47-1005.02. The 29 units of workforce housing are not eligible for this exemption and are the subject of the proposed bill.

Financial Analysis

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

Terms of the Exemption or Abatement

The bill provides real property tax, recordation, and transfer tax abatements and exemptions to the Property provided that a portion of the Property is exempt from real property tax under District of Columbia Code § 47-1005.02.[4] The legislative abatement and exemptions would be effective from the enactment of the bill and would be applicable upon the date of inclusion of their fiscal effect in an approved budget and financial plan. The Applicant requests the abatement in order to financially support an enhanced level of services appropriate to the operation of permanent supportive housing in The Robeson. According to the Applicant, a real property tax abatement for the Property will allow for sufficient operating budget to pay for front desk staffing that serves as a building concierge, a proposed element of the building's operation that the Applicant considers a best practice for permanent supportive housing.[5] The Applicant has received financing commitments for the Property based on pro forma financials that do not budget for this additional operating cost.

Annual Proposed Value of the Exemption or Abatement

The abatement is valued at approximately $2.6 million through FY2050. Although not included in the bill as introduced, the estimate also values the retroactive application of the abatement to tax year 2020, estimated at $254,000 for real property, recordation and transfer taxes, The estimated value of the real property tax abatement includes possessory interest tax on the Applicant's leasehold interest in the land, which is not abated in the introduced bill.[6] The table below summarizes the estimated value of the abatement.

[4] The lessee is also subject to possessory interest taxes on the ground lease. Note that the proposed bill does not provide an abatement of possessory interest tax and will need to be amended to include it if the Council intends to provide such an abatement.
[5] According to the Applicant, the additional operating expense needed will cover an on-site assistant, stationed in the building's lobby, who will monitor property conditions, greet tenants and their visitors, and provide basic security and front desk services to all residents. The assistant's time and personnel cost will be split evenly between The Robeson and The Appleton (the senior housing building). The Applicant estimates the additional cost to the Property at approximately $45,000 in the initial year.
[6] Possessory interest on the Property has not yet been assessed. The FY20 and FY21 values are based on the current assessed value of the land.

Estimated Value of the Proposed Tax Abatement

	FY2020	FY 2021	FY 2022	FY 2023	FY 2024	Total to FY2024	Total FY25-50	Total Value
Real Property Tax Abatement	$10,000	$21,000	$55,000	$53,000	$54,000	$193,000	$2,176,000	$2,369,000
Recordation and Transfer Tax	$235,000	$0	$0	$0	$0	$235,000	$0	$235,000
Total	$245,000	$21,000	$55,000	$53,000	$54,000	$428,000	$2,176,000	$2,604,000

Summary of the Proposed Community Benefits

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

Financial Analysis for Development Projects

The Office of Finance and Treasury (OFT) within the OCFO reviewed pro forma financial projections provided by the Applicant. The pro forma contains The Robeson's development budget and funding sources, identifies assumptions regarding its rental revenue and operating expenses, and projects the Property's operating cash flow for 20 years following the building's completion. The cash flow projections estimate the property's annual net operating income (NOI) available to repay the funds used to finance the Property's development.[7] The NOI must cover the Property's senior debt service, and then remaining cash pays subordinate financing commitments, including payment of deferred developer fees, and repayment of the developer loan and the HPTF loan. Based on the Applicant's pro forma, NOI is projected to increase by a modest amount annually.

The additional operating expense for the proposed services, in addition to the projected real property tax liability, would lower the NOI. Based on the Applicant's pro forma cash flow projections, the NOI would still be sufficient to pay the senior debt service on the Property, but it would impact the cash available to pay the subordinate payments, particularly the Applicant's deferred developer fees and repayment of the Applicant's developer loan.[8] The Applicant would not likely choose to incur the additional operating expense because it would result in significantly delayed repayment of the Applicant's contributions to the Property's development, unless the cost was offset by the tax abatement.[9] According to the payment schedule in the Applicant's pro forma, an abatement of real property taxes for 15 years would provide sufficient cash flow for the repayment of the Applicant's deferred developer fees in full during the abatement period; when the 15-year abatement period ends, sufficient cash flow would be available to pay the remaining obligation on the Applicant's developer loan.

The Property's FY2020 tax liability does not pose a financial hardship. The recordation taxes paid, and the potential assessment of FY20 possessory interest taxes, represent a small fraction of the total cost of developing the Property, and can be absorbed by the Property's development budget.

[7] Net operating income is the Property's revenue (its rental income) minus the Property's operating expenses.
[8] Reduced NOI also impacts repayment of DHCD's HPTF subordinate loan. However, the loan is subordinate to repayment of other obligations, and unpaid interest accrues until cash flow is available for repayment.

Conclusion

Based on the OCFO's analysis of the information provided, it is unlikely that the Applicant would choose to incur the additional operating cost of the enhanced resident services without real property tax relief. Therefore, a real property tax abatement is financially necessary if the District would like to support the enhancements to the Property's operation. The abatement is financially necessary for 15 years and should be contingent upon provision of the proposed enhancements. An exemption from recordation and transfer taxes is not financially necessary because no such prospective tax liability is foreseeable on the Property based on the available information. FY2020 tax liability can be absorbed by the Property's development budget, and therefore retroactive application of the abatements and exemptions is not financially necessary.

Attachment: Summary of Community Benefits Provided by the Applicant

The Applicant provided this summary, which covers the entire Spring Flats Community project. The employment opportunities with Davis-Bacon prevailing wage rates are requirements associated with the District's subsidy (through the Housing Production Trust Fund) and land disposition process.

- LEED Gold development
- 185 units of housing, approximately 80% of which will be affordable including:
    - The Robeson (Spring Flats Family)
        - 58 units of affordable housing, including 9 permanent supportive housing units
        - 29 units of housing at workforce rent levels
    - The Appleton (Spring Flats Senior)
        - 88 units of affordable housing for seniors, including 14 permanent supportive housing unit
    - The Rows (Spring Flats Townhomes)
        - 10 units of homeownership, including three affordable at 100% of AMI

- Extensive community consultation and input into development plans, with ongoing updates
- Employment opportunities with Davis-Bacon prevailing wages, guided by the District's First Source program
- Funding support of $15,000 to nonprofit for workforce development (in collaboration with ANCs)
- Major improvements to portion of 10th Street, NW to permit street to be rededicated to DDOT
- Redesign and improvement of historic park to allow for public access (daytime) to pocket park
- Historic marker
- Public Art
- Public bike racks
- Targeted housing outreach to local locations
- The Paul Robeson Community Room in The Robeson to be accessible to certain nonprofits and groups for up to 40 hours per month