

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



Natwar M. Gandhi
Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

TO: The Honorable Vincent C. Gray
Mayor, District of Columbia

The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

A handwritten signature in black ink, appearing to read 'ng', with a long horizontal flourish extending to the right.

DATE: November 30, 2012

SUBJECT: "Washington Latin Public Charter School Campus Property Tax
Exemption Act of 2012"

REFERENCE: Bill 19-1035

Findings

If the District would like to support Washington Latin Public Charter School (Washington Latin) in its mission to operate as a public charter school at the Rudolph School location¹, the tax exemptions proposed by Bill 19-1035 (Act) are necessary.

The Office of the Chief Financial Officer (OCFO) finds that the imposition of possessory interest and deed recordation and transfer taxes would hinder the school from completing critical renovations in a timely manner. If the property were subject to these taxes, the estimated cost to the District would be \$6.18M through FY 2037.

Because Washington Latin has obtained federal subsidies in the form of federal tax credits, the nonprofit operator, who would otherwise be eligible for tax exemptions or rebates under existing District law, is now required to pay possessory interest and deed recordation and transfer taxes. The proposed legislation would exempt the property from real property, possessory interest, and deed recordation and transfer taxes.

Please refer to the OCFO's separate Fiscal Impact Statement for the effect of the proposed legislation on the District's FY 2013 through FY 2016 budget and financial plan.

¹ The property is located in Lot 800, Square 3327 at 5200 2nd Street, N.W.

Background

Washington Latin is a District-certified nonprofit charter school that is relocating to the Rudolph School site. Washington Latin was awarded the property through a District-run competitive bid process for District charter schools. According to the terms of the agreement with the District, Washington Latin will lease the site for a period of 25 years.²

The Rudolph School site is in significant disrepair, and as such, Washington Latin will be undertaking extensive renovations. The property is projected to be ready for occupancy by August 2013. The school is securing the majority of financing for its renovations through the federal New Market Tax Credit (NMTC) program. As required by the NMTC program, Washington Latin is creating Latin Rudolph QALICB, LLC³ (Latin LLC), an entity that is to receive the tax credits generated by NMTC investments. To comply with federal law, the site must be leased to Latin LLC rather than directly to Washington Latin. Latin LLC will in turn sublease the property to Washington Latin.

Because of the NMTC structure, the property has become subject to possessory interest and deed recordation and transfer taxes. However, the school will continue to be managed by Washington Latin, and any taxes to which Latin LLC is subject will be passed on directly to the Washington Latin through the sublease. In the absence of the federal subsidy, Washington Latin would be eligible for a tax exemption under existing District law.

Financial Analysis

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

Terms of the Exemption or Abatement

The legislation states that the property shall be permanently exempt from possessory interest and deed recordation and transfer taxes as long as the real property continues to be owned or occupied under a ground lease by Washington Latin or Latin LLC.

² It is expected that the lease will be executed in December 2012. The lease will be for 25 years, with an option to renew the lease for an additional 25 years.

³ QALICB signifies a Qualified Active Low-Income Community Business.

Annual Proposed Value of the Exemption or Abatement

The expected value of each type of tax exemption proposed is:

Projected Value of Tax Exemptions for Latin LLC						
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 - FY 2037	TOTAL FY 2013- FY 2037
Possessory Interest Tax Exemption	\$ 157,413	\$ 167,330	\$ 172,350	\$ 176,831	\$ 4,984,621	\$ 5,658,546
Deed Recordation and Transfer Tax Exemption	\$ 525,438	\$ -	\$ -	\$ -	\$ -	\$ 525,438
TOTAL	\$ 682,851	\$ 167,330	\$ 172,350	\$ 176,831	\$ 4,984,621	\$ 6,183,984

Summary of the Proposed Community Benefits

A summary of the proposed community benefits, as provided by Washington Latin, is attached to this analysis as Attachment A.

Financial Analysis for Development Projects

1. *Review and Analysis of the Financing Proposal Including Advisory Opinion Stating Whether or Not It is Likely that the Project Could Be Financed Without the Proposed Exemption or Abatement*

Though Washington Latin is seeking the exemption on behalf of Latin LLC, the financial statements submitted are those of Washington Latin as it is the ultimate lessee.⁴ The OCFO finds that if Washington Latin were required to pay possessory interest and deed recordation and transfer taxes on the new property, its resulting cash flow would be negative.

⁴ Though Washington Latin is seeking an exemption on behalf of Latin LLC, the OCFO is not making a determination on the financial position of Latin LLC. The OCFO’s Office of Economic Development Finance has only analyzed Washington Latin’s financial statements as it is the ultimate lessee and taxpayer, as well as the entity that will operate and manage the school.

The project’s current *pro forma* proposes the following sources and uses:

SOURCES	
NMTC Financing	\$17,500,000
Washington Latin Equity - Cash	<u>\$1,000,000</u>
Total Financing Sources	\$18,500,000
USES	
Construction, Contingency, and Testing Costs	\$14,163,800
Engineering and Program Costs	\$2,136,200
Financing and Legal Fees	<u>\$2,200,000</u>
Total Financing Uses	\$18,500,000

2. *Estimate of the Amount of Exemption or Abatement Necessary to Enable the Project to Be Financed*

If the Council seeks to support Washington Latin in its mission to operate a public charter school at the Rudolph site, the requested tax abatement in the amount of \$6.18M is necessary through FY 2037 in order for Washington Latin to pay debt service and meet the terms of the federal tax credits financing.

3. *Assessment of the Developer’s Documentation of Efforts to Seek Alternate Financing and the Factors that Limit the Developer’s Ability to Obtain Adequate Financing.*

Washington Latin is in the process of securing federal tax credits to fund 95 percent of its construction costs. It is unlikely that Washington Latin would be able to secure traditional debt or equity because its nonprofit business model does not create sufficient net operating income to make debt service or equity payments.

Attachment A

Community Benefits Supplied by Washington Latin Public Charter School

The community benefit of Washington Latin PCS occupying the former Rudolph facility is that it will provide a free, high quality middle and high school education to 650 District children. In addition, a former DCPS facility that is in a continued state of disrepair will be fully modernized and improve the neighborhood.

Latin LLC will have no employees, however, Washington Latin PCS currently employs 56 District residents and plans on adding additional positions when we move to our permanent facility at Rudolph. It is estimated that approximately 8-10 of the new hires will be District residents. In addition to the long term hires, the general contractor, MCN Build, who already has a strong track record of employing District residents, will hire additional labor as needed, using District DOES as the first source for employees.