

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



Jeff DeWitt
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: **Jeff DeWitt**
Chief Financial Officer

DATE: **September 8, 2014**

SUBJECT: **"N Street Village, Inc. Tax and TOPA Exemption Amendment Act of 2014"**

REFERENCE: **No Bill Number, Based on Draft Legislation**

Findings

The proposed legislation would grant an exemption of real property, transfer and recordation taxes to the owners of N Street Village. If the District would like to support the property owner to proceed with various proposed real property transfers, continue operating in its current use, experience no reduction in services, and prepare for a building rehabilitation, the owner will require a partial exemption of taxes.

N Street Village, Inc. (N Street Village) has sufficient resources to pay real property taxes that may result from the transfers proposed. However, it appears unlikely to have sufficient resources to pay the associated recordation taxes without creating instability in their current housing and service operations.

The property is currently tax exempt but is expected to become partially taxable while it completes a series of transfers of property and leasehold interests. The property is ultimately expected to become tax-exempt once again under D.C. Official Code¹ after it receives a Low-Income Housing Tax Credit (LIHTC) allocation in 2015. The legislation is intended to ensure the property remains tax-exempt as it moves from one tax-exempt status to another. Therefore, this analysis pertains only to the taxes expected to be owed beginning with the first transfer and before the 2015 receipt and certification of new LIHTCs.²

Please refer to the OCFO's separate Fiscal Impact Statement for the effect of the proposed legislation on the District's FY 2015 through FY 2018 budget and financial plan.

¹ D.C. Official Code § 47-1005(2).

² For purposes of this analysis, the expected time period is the full fiscal year 2015, however the actual time period may be longer or shorter depending on the timing of the transactions involved.

Background

The proposed legislation would exempt the property located at 1301 14th Street, NW (Square 242, Lot 93) from all taxation (real property, recordation, transfer and economic interest taxes) so long as it is used for affordable housing³, for supportive services for tenants of affordable housing or other low-income individuals⁴, and is owned or controlled by N Street Village, Luther Place Memorial Church, or by an organization controlled by one of those entities. N Street Village is a District of Columbia non-profit that owns and operates the property and provides 51 units of affordable housing for families earning up to 60 percent of Area Median Income (AMI). It also provides permanent supportive housing for individuals, supportive services for residents of its supportive housing, and supportive services for non-resident low-income individuals.

In 1995, the Office of Tax and Revenue exempted the property from real property taxation under D.C. Official Code § 47-1002(8) which generally applies to property used for purposes of public charity principally in the District. This exemption is currently in place and is expected to continue as long as N Street Village owns the property and the property is used for the charitable purposes on which the grant of exemption was premised.

N Street Village is currently preparing to apply for LIHTCs, expected in 2015, to finance a portion of a \$15 million renovation of the building. If approved and certified, it is expected that the housing portion of the property would qualify for a real property tax exemption as affordable housing under D.C. Official Code § 47-1005.02.

Due to a prior agreement with Luther Place Memorial Church, N Street Village seeks to transfer the land and building on the site to the Church and subsequently lease the building back from the Church for a 50-year period for a nominal rent. The changes in leasehold interests are unlikely to present tax issues, because of the nominal lease payments. However, the transfer of property by N Street Village to Luther Place Memorial Church may be subject to deed recordation tax at least in part.⁵ Once transferred to the Church, without the proposed exemptions, the property would likely be treated as partially taxable and partially exempt for real property, and recordation tax purposes until the LIHTCs are in place. Based on current uses, an estimated 73% of the site would be considered taxable and 27% would be considered tax exempt.

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the OCFO’s Office of Economic Development Finance (EDF) to contain certain information. The required information is below.

Terms of the Exemption of Abatement

The legislation provides an exemption from all taxes as long as the property continues to be owned or controlled by N Street Village or Luther Place Memorial Church, or by an organization controlled by one of

³ As defined in D.C. Official Code § 47-1005(2)(a), which refers to properties that qualify under the federal Low-Income Housing Tax Credit program.

⁴ Including offices and parking for administrative staff.

⁵ Since the property is currently exempt from real property tax, N Street Village would not incur transfer tax on the conveyance of the property to the Church, but Luther Place Memorial Church would be required to pay recordation tax.

those entities, and is used as affordable housing⁶ and/or for supportive services for tenants of that affordable housing and other low-income individuals.⁷ The property meets this standard in its current ownership structure and is expected to continue to meet it during a period of time when a number of leasehold and ownership changes take place. While the property is expected to be fully exempt without this exemption once the LIHTCs are received, the proposed legislation provides an exemption in perpetuity as long as the criteria above are met.

Proposed Value of the Exemption or Abatement

The estimated value of the real property and recordation tax exemption is approximately \$376,000. This figure is based on an assumed 73% prorated amount (as discussed above) on 1) the recordation tax resulting from the transfer of the real property from N Street Village, Inc. to Luther Place Memorial Church, plus 2) one year of real property tax on the property prior to receiving a new LIHTC certification. As this entire transaction is expected to take place in FY2015, this analysis uses the applicable assessed value of the property for 2015, which is \$22,402,100.

Estimated Property Related Tax Abatements in FY2015	
Real Property Tax Exemption (1year)	\$139,005
Recordation Tax Exemption	\$237,126
Estimated Total	\$376,131

Summary of the Proposed Community Benefits

A summary of the proposed community benefits as submitted by the project sponsor is in the attached document.

Financial Analysis for Existing Buildings

Review and Analysis of the Financial Condition of the Recipient and Advisory Opinion Stating Whether or Not It Is Likely that the Recipient Could Be Reasonably Expected to Meet Its Fiscal Needs without the Proposed Exemption or Abatement.

N Street Village provided EDF with three years of financial statements (2011 – 2013). These statements incorporated the financial statements of the subject property. N Street Village also provided the sources and uses for the planned \$15 million property renovation. Based on the EDF’s analysis, N Street Village does have sufficient reserves to meet its fiscal needs and pay real property tax payments during the period that it is likely to be taxable, but it does not have sufficient funding sources to pay the recordation tax that will be required when the property is transferred to the Luther Place Memorial Church.⁸

⁶ As defined in D.C. Official Code § 47-1005.02(a)(1), which refers to properties that that are eligible for the federal LIHTC program.

⁷ Including offices and parking for administrative staff.

⁸ Because the proposed 50-year lease back from the Church to N Street Village requires N Street Village to pay any real estate taxes associated with the transaction, this financial analysis does not include a review of Church finances.

Attachment
Community Benefits – N Street Village
(Submitted by N Street Village, Inc.)

N Street Village is a community of empowerment and recovery for homeless and low-income women in Washington, DC. With comprehensive services addressing both emergency and long-term needs, we help women achieve stability and make meaningful gains in their housing, income, employment, mental health, physical health, and addiction recovery. N Street Village also provides affordable rental housing for low- and moderate-income individuals and families.

The project will preserve 51 units of affordable housing for individuals and families at up to 60% of AMI. It will also preserve 42 affordable permanent supportive housing SRO units for homeless and extremely low-income women at up to 30% of AMI. Pending completion of a successful capital campaign, we also plan to add 2 new SRO units for women at up to 30% of AMI at this location within the next two years.

The project will also preserve jobs in the community. N Street Village currently employs 54 permanent employees – 33 full-time employees and 21 part-time employees. 33 of our employees are DC residents. N Street Village uses W.C. Smith as its property management company for the project; W.C. Smith employs 5 full-time and several part-time employees in support of the management of this property.

The property is zoned as SP-2. DC’s Office of the Zoning Administrator has confirmed that the project’s present use and the planned addition of two new units of affordable housing is a matter of right.

Over 1,000 individuals receive services from N Street Village each year. In addition to the affordable and supportive housing programs listed above, further community benefits and amenities the project offers include:

- A day center offering meals, clothing, showers, laundry facilities, and crisis support for women.
- A health and wellness center offering health promotion programs to improve women’s mental and physical health.
- On site access for homeless and low-income women to primary care physicians, dental health care, and psychiatric health care.
- A therapeutic residential program for women with mental illness and addiction issues who are seeking to stabilize their health.
- Intensive case management services that work with residents living in the SRO units at the project to help them achieve their housing, income, employment, and health goals.