

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:** August 27, 2014

**SUBJECT:** "SeVerna, LLC, Real Property Tax Exemption and Real Property Tax Relief Amendment Act of 2013"

**REFERENCE:** Bill 20-589

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**Findings**

The proposed legislation would grant an exemption of real property taxes for 15 years from FY 2013 to FY 2027 and refund real property taxes paid in FY 2013 and FY 2014. The exemption and the refund, totaling \$1.7 million, are not necessary for the low-income residential apartment building to remain operational and continue to provide affordable housing.

The original financing for the development was underwritten to include annual payments of real property tax and financial operating information demonstrates the owner can pay these taxes while maintaining the building's long-term affordability.

Please refer to the OCFO's separate Fiscal Impact Statement (to be issued) on the budgetary impact of the proposed legislation on the District's FY 2014 through FY 2017 budget and financial plan.

**Background**

The SeVerna is a rental housing development within the Northwest One New Community at the intersection of 1<sup>st</sup> St., NW and K St., NW.<sup>1</sup> The property, completed in November of 2011, is

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<sup>1</sup> SeVerna is located on Square 621, Lot 247 (previously listed as Lot 861).

managed by a non-profit sponsor<sup>2</sup> and supported with federal Low-Income Housing Tax Credits (LIHTC). SeVerna includes 60 rental units:

- 30 units affordable to residents at 30% of AMI (currently \$32,190); and
- 30 units affordable to residents at 60% of AMI (currently \$64,380).

The *Nonprofit Affordable Housing Developer Tax Relief Act of 2012* (the Act)<sup>3</sup> provides a real property, deed recordation, and transfer tax exemption to certain LIHTC properties that apply for certification through the Department of Housing and Community Development (DHCD). However, this property is not eligible for an as-of-right exemption authorized by the Act because the development was completed prior to the effective date of the Act.

The property was financed with a combination of equity from LIHTC investors, first mortgage financing, and “soft” loans that are repaid if and when there is available cash flow from the building. These soft loans include DHCD Neighborhood Investment Funds and New Communities Funds.

While the affordability covenant provides for affordable housing for 40 years, the real property tax exemption is requested for 15 years only to match the affordability requirements of the LIHTC program.

### Financial Analysis

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

#### Terms of the Exemption of Abatement

The proposed legislation would provide real property tax exemptions for a 15-year period from FY 2013 to FY 2027, and be applied retroactively for FY 2013 through FY 2014. Any real property taxes paid in FY 2013 and FY 2014 would be refunded.

#### Annual Proposed Value of the Exemption or Abatement

| Projected Value of Tax Exemption  |                      |          |           |            |                      |                            |
|-----------------------------------|----------------------|----------|-----------|------------|----------------------|----------------------------|
|                                   | FY 2014 <sup>4</sup> | FY 2015  | FY 2016   | FY 2017    | FY 2018 -<br>FY 2027 | Total FY 2014 -<br>FY 2027 |
| Real Property<br>Tax<br>Exemption | \$228,352            | \$96,910 | \$100,399 | \$ 103,813 | \$1,208,130          | \$1,737,604                |

The estimated total value of the real property tax exemption is approximately \$1.7 million, which is based on an annual increase in property assessed value of 2.6 % in FY 2018 and beyond.

<sup>2</sup> The managing member is a team consisting of Golden Rule Apartments, Inc. and Mission First Housing Development Corporation – together they hold a .01% membership in the LLC partnership that owns the property.

<sup>3</sup> D.C. Official Code § 47-1005.02.

<sup>4</sup> This amount includes a rebate for any real property taxes paid in FY 2013 and FY 2014.

Summary of the Proposed Community Benefits

A summary of the proposed community benefits as submitted by the non-profit 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.*

SeVerna, LLC provided EDF with projected revenue and expense information, including debt service. Based on this information, EDF estimates that the requested real property tax exemptions are not necessary for the property to remain operational and affordable for the long term. The development is currently operating without an exemption and revenues are sufficient to pay the property’s operations and first mortgage. EDF expects they will continue to be able to meet their fiscal needs without the proposed exemption going forward.

ATTACHMENT

**Community Benefits**

The property will provide affordable housing for at least 40 years. 30 units are set aside for families making less than 30% of Area Median Income, and 30 units for those making less than 60% of Area Median Income.