

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

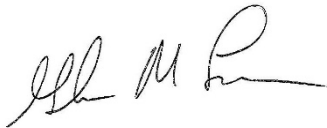


Glen M. Lee
Chief Financial Officer

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: **Glen M. Lee**
 Chief Financial Officer 

DATE: **October 4, 2022**

SUBJECT: **Tax Abatement Financial Analysis- "UDC Leased Property Tax**
 Abatement Amendment Act of 2022"

REFERENCE: **24-0935**

Findings

The bill, the "UDC Leased Property Tax Abatement Amendment Act of 2022" (the "Bill"), would exempt from real property taxes the property designated as Square 2051, Lot 0007 (the "Property") for as long as the Property is leased by the University of the District of Columbia ("UDC") and used for educational purposes.

UDC is a component unit of the Government of the District of Columbia (the "District") and receives an annual appropriation that covers over half of their expenses. UDC does not operate at a deficit and the tax liability on the Property represents a small portion of UDC's annual expenses. The Office of the Chief Financial Officer (OCFO) finds the abatement is not financially necessary for UDC to continue to operate.

Background

UDC began leasing the Property in 2018. UDC's current lease is for 14 years with two additional five-year option periods for a total of 24 years. The building lease covers 19,998 square feet. According to UDC's lease agreement, UDC is responsible for any real property taxes for the duration of the lease.

The building is owned by a for-profit entity and therefore subject to real property taxes. According to UDC, they leased this space in order to have a "long-term swing space" to be used as renovations

happen at other academic buildings owned by UDC. Given the need for continual, long-term swing space, UDC has had to look at non-University buildings as options.

UDC also currently benefits from an exemption granted by legislation for a building at 801 North Capitol Street, NE that it leases so long as the real property continues to be leased by UDC.¹

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.

(A) Terms of the Abatement

The Bill would exempt the Property from real property taxation so long as it is leased by UDC and used for educational purposes.

(B) Value of the Abatement

As shown in Table 1, the Bill’s proposed tax relief for Square 2051 Lot 0007 is valued at approximately \$3.7 million. The estimated value through the financial plan period is \$620,000.

Table 1: Estimated Value of the Proposed Tax Abatement

Exemption	FY 2023	FY 2024	FY 2025	FY 2026	Total FY23-26	Total FY27-47	Total Value
Real Property Tax	\$152,000	\$154,000	\$156,000	\$158,000	\$620,000	\$3,087,000	\$3,707,000

Please refer to the separate Fiscal Impact Statement for the effect of the Bill on the District’s financial plan.

The Exemptions and Abatements Information Requirements Act of 2011 requires certain information from the Applicant pertaining to political contributions and contracts held by the Applicant if the total estimated value of the abatement or exemption is \$250,000 or more. According to the Applicant, no political contributions have been or will be made. A list of the applicable contracts with the District of Columbia held by any principals or affiliates of the Applicant as described in D.C. Official Code §47-4701(b)(1)(c-i) is in Appendix A.

(C) Purpose of the Abatement

According to the Applicant, the purpose of the abatement is to reduce UDC’s operational expenses to reduce and/or offset the overall cost of attendance for UDC students.

(D) Summary of the Proposed Community Benefits

The community benefits provided by the Applicant are provided in Appendix B.

¹ D.C. Official Code 47–1099.03

(E) Financial Analysis and Advisory Opinion

OCFO’s Office of Finance and Treasury (OFT) evaluated the audited financial statements for UDC for 2019 to 2021.

The Bill would increase net income for UDC by reducing the property tax expense it has contractually agreed to pay.

UDC is a component unit of the District and receives an annual appropriation. Over 50 percent of UDC’s total revenue comes from the District appropriation. The requested exemption is the fiscal equivalent of an appropriations request, and therefore approval of the exemption is a budget matter for the Council.

In addition, the 2023 estimated property tax – \$151,793.78 – is 0.27 percent of average operating revenue² for the last three years and .09 percent of average operating expenses for the last three years which should not present an issue for UDC’s budget. Furthermore, an analysis of UDC’s balance sheet over the past three years indicates its current (mostly liquid) assets are consistently able to cover its liabilities and thus demonstrates good financial health.

Conclusion

For these reasons, OCFO finds that a tax abatement is not financially necessary. Based on the relatively small amount of property taxes requested to be exempt and UDC’s status as a component unit of the District subject to the budget process, there are sufficient resources to pay this tax liability.

² Operating revenue excludes the funds appropriated from the District.

Appendix A

FY 2022 Intra-District MOU's

No.	Project Title (Purpose)	Start Date	End Date	Agency Name
1	CTE Certification Program (Pay for certification exams for District students who have participated in CTE Priority programs of study)	7/1/2021	6/30/2022	OSSE
2	Performance Program Evaluation (Provide access to comprehensive, cost-effective and quality healthcare services for residents of the District of Columbia)	10/1/2021	9/30/2022	Department of Health Care Finance
3	Career and Technical Education/Perkins (Increase academic, career and technical skills of postsecondary students)	7/1/2021	6/30/2022	OSSE
4	Adult and Family Education (Provide support to students for training and certification purposes)	10/1/2021	9/30/2022	OSSE
5	Fuel for UDC Vehicles	10/1/2021	9/30/2022	Dept. of Public Works
6	Paths Project Income Maintenance (Provide training and employment support services to needy families)	10/1/2021	9/30/2022	Department of Human Services Economic Security Admin DC
7	Snap Ed-CES (Adopt diet and consistent with DGA and the USDA food guidance)	10/1/2021	9/30/2022	Department of Health
8	Respite Aide - Caregivers (LG Total Fitness TE Priority programs of study)	10/1/2021	9/30/2022	Office of Aging
9	Voice and Data Request	10/1/2021	9/30/2022	DC Net
10	Armored Car Services	10/1/2021	9/30/2022	OCFO/UDC
11	IT Assessments	10/1/2021	9/30/2022	OCTO
12	Professional Development training for DHS	5/1/2022	9/30/2022	DC Department of Human Services (DHS)
13	DCHA Greenleaf - To empower residents and to provide a variety of educational opportunities to bolster their confidence and take an active role in improving their futures.	1/1/2022	12/31/2022	DC Housing Authority (DCHA)

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14	MPD History - MPD educational Program to equip police officers with the necessary tools to better understand the community they serve.	10/1/2021	9/30/2022	DC Metropolitan Police
15	DCPS WDLL SYEP - provide occupational training programs for District residents	6/1/2022	9/30/2022	DCPS
16	Innovative Stormwater Management - To retrofit a parking lot at Langdon Park with a closed-loop stormwater treatment train.	10/1/2021	9/30/2022	Department of Energy and the Environment (DOEE)
17	Institute for Youth Development - To provide technical assistance and instructional services to youth development practitioners.	5/20/2019	1/31/2022	Office of the Deputy Mayor of Education
18	WIC Program - To establish UDC and WIC partnership to provide no cost IT and Healthcare training and certification to eligible District residents	1/1/2022	9/30/2022	Workforce Investment Council (WIC)

Appendix B

Summary of Community Benefits Provided by Applicant

As the District’s only public institution of higher learning, in, and for, the nation’s capital, UDC is often the only affordable higher education institution for the District’s residents. By enabling the University to spend its limited financial resources on its students, this tax abatement will lead to more District residents being able to achieve a postsecondary credential or degree at an overall lower cost to them. Additionally, 4225 Connecticut currently serves as the location of a food pantry, which is the only one in the vicinity, and the University will be using it as a location for student immunization clinic this fall, thereby enabling children who are currently residing in Ward 3 but who have not yet received their childhood immunizations (particularly children who are now residing in Ward 3 as part of the District’s Department of Human Services/housing programs), including the COVID-19 vaccination. Without these immunizations, students will not be able to attend public schools in the District pursuant to the District’s “no shots, no school policy.”