

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

DATE: **October 3, 2012**

SUBJECT: **“Israel Senior Residences Tax Exemption Act of 2012”**

REFERENCE: **Bill 19-800**

Findings

The real property tax exemption proposed by Bill 19-800 is necessary through FY 2043 if the District would like the proposed affordable apartments for seniors to be constructed on property located at the intersection of Rhode Island Avenue, NE and 10th Street, NE. This finding is based on information submitted to the Office of the Chief Financial Officer (OCFO) by the property owner.

The legislation would authorize the tax exemption for a period of 30 years, provided the apartments are leased to residents earning 50 – 80 percent of Area Median Income. The total value of the proposed exemption over 30 years would equal an estimated \$940,200.

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.

Background

The proposed Bill 19-800 would exempt the property located at Square 3848, Lot 60 from real property taxes beginning at the commencement of site preparation and continuing for a period of 30 years, provided the site is constructed and maintained as affordable housing for persons earning between 50 percent and 80 percent of Area Median Income. The legislation would also exempt the development from certain District permit fees.

The planned development of the property, to be called Israel Senior Residences, incorporates 47 one-bedroom apartments in a 4-story building. The developer of the property is Israel Manor Inc., an affiliate of Israel Baptist Church. Israel Manor has applied for financing assistance for the project from the District of Columbia Department of Housing and Community Development (DHCD). In its application, Israel Manor committed to maintaining rents for the apartments at a level affordable to people earning 50 percent of the Area Median Income. DHCD is reviewing the project for an allocation of federal Low Income Housing Tax Credits (LIHTCs) and HOME funds. Additionally, Israel Manor has applied to a lender for a federally-insured mortgage for the property; such application will be reviewed by the Federal Housing Administration.

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 below.

Terms of the Exemption of Abatement

The legislation dictates the conditions under which the property will receive a tax exemption, including the commencement of site preparation. This analysis assumes those conditions will be met beginning in the second half of FY 2013, and that the property will qualify for the tax exemption for the maximum 30-year period allowed under the legislation.

Annual Proposed Value of the Exemption or Abatement

Projected Value of Tax Exemption						
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 – FY 2043	30 Year Total
Real Property Tax Exemption	\$5,700	\$31,800	\$76,700 ¹	\$20,900 ²	\$805,000	\$940,200

The estimated value of the real property tax exemption from FY 2013 through FY 2043 is approximately \$940,200, which is based on an annual increase in property assessed value of 2.6 percent in FY 2017 and beyond.

Summary of the Proposed Community Benefits

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

¹ The estimated tax assessment for the property is assumed to be based on its construction cost.

² The estimated tax assessment for the property is assumed to drop due to the restricted rent potential of the property.

Financial Analysis

1. *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.*

Israel Manor, Inc. provided the OCFO with projected cash flows, summaries of proposed financing terms, and indicators of market demand. The OCFO estimates that in the absence of a real property tax exemption, cash flow generated by operations would be insufficient to repay the project’s subordinated cash flow loan prior to its expected maturity.

Israel Manor anticipates financing the project using the following sources:

SOURCES	
FHA-insured Mortgage	\$ 1,706,200
DHCD Subordinate Loan	\$ 1,514,000
Low Income Tax Credit Equity	\$ 6,674,965
Deferred Developer Fee	\$ 236,000
Total Sources	\$10,131,165
USES	
Land and Acquisition Costs	\$ 539,000
Construction Costs	\$ 6,407,156
Soft Costs (including financing costs)	\$ 1,988,993
Developer Fee	\$ 1,196,016
Total Uses	\$10,131,165

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

The tax exemption is deemed necessary throughout the proposed 30-year term, in order for the project to operate at the sponsor’s intended rent levels.

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*

While the rent restrictions proposed for the project limit the amount of cash flow available to support a conventional mortgage, the proposed funding plan for the project takes advantage of three different federal and District programs available for qualified affordable or senior residential projects. It does not appear that additional sources of funding would be available.