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:	**July 6, 2012**
SUBJECT:	**"SOME, Inc., and Affiliates Property, Recordation and Transfer Taxes Exemption Amendment Act of 2012"**
REFERENCE:	**Bill 19-661**

Findings

The property tax exemptions proposed by Bill 19-661 are necessary through FY 2047 if the District would like the property[1] to be operated and maintained as supportive housing for extremely low-income families.

While the legislation would authorize the tax exemptions permanently, the property's first mortgage is scheduled to be fully repaid in FY 2047. Therefore, the Office of the Chief Financial Officer (OCFO) recommends that the necessity for an exemption beyond that date be reviewed at that time. Through FY 2047, the total value of the proposed exemption would equal an estimated $1.82 million.

Please refer to the OCFO's separate Fiscal Impact Statement for the effect of the proposed legislation on the District's FY 2012 through FY 2016 budget and financial plan.

[1] The property is located on Square 557, Lot 888 at the corner of New York and New Jersey Avenues at 216 New York Avenue, NW and 1151 New Jersey Avenue, NW.

Background

The proposed Bill 19-661 would exempt the property located at Square 557, Lot 888 from real property, recordation, and transfer taxes beginning in 2012 and so long as it is owned or controlled by So Others Might Eat (SOME) or Affordable Housing Opportunities, Inc. The property, called the Augusta-Louisa, is comprised of two buildings that occupy 29,115 square feet of space. It is operated as a low-income residential property serving District residents earning up to 30 percent of Area Median Income (AMI).

The property is currently owned by a nonprofit entity called the Northwest Church Family Network (NCFN) and has been receiving a property tax exemption. The District-based non-profit organization, SOME assumed management of the property in the fall of 2011, and has entered into an agreement to acquire the property. SOME plans to finance a renovation of the property in part through the use of federal Low Income Housing Tax Credits (LIHTCs). In order to take advantage of the equity raised through the sale of LIHTCs, SOME will be required to form an affiliated for-profit limited liability company (LLC) to acquire the property. Under current law, if the property is owned by a for-profit entity, it will be subject to real property, deed recordation and transfer taxes.

The buildings were constructed in 1900 and 1901 and have never been renovated. SOME plans to undertake comprehensive rehabilitation of the site, including reconfiguration of the units and common areas, the addition of an elevator, and the provision of wheelchair access.

The project will receive rental subsidies for its 27 units from two entities, the District of Columbia Housing Authority (DCHA) and a nonprofit organization, The Community Partnership (TCP). DCHA will subsidize at least 20 units, and TCP will cover at least six units.

SOME's planned financing includes a senior loan from the District of Columbia Housing Finance Agency (DCHFA) and subordinate financing from the District of Columbia Department of Housing and Community Development (DHCD). In addition, SOME will defer approximately half of its earned developer fee and contribute a cash flow loan. Finally, the project will generate investor equity through the sale of the LIHTCs.

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 states that the property owned by SOME or its affiliates[2] shall be permanently exempt from real property, recordation, and transfer taxes beginning in FY 2012.

However, because the current property owner is exempt from real property taxes and the transfer to SOME is not expected to occur before FY 2013, we expect the legislation to apply beginning in FY 2013.

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[2] Its affiliates are defined as Affordable Housing Opportunities, Inc., (AHO) or an entity controlled by SOME or AHO.

Annual Proposed Value of the Exemption or Abatement

Projected Value of Full Tax Exemptions for SOME						
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017 – FY 2047**	**Total FY 2013 – FY 2047**
Real Property Tax Exemption	$39,590	$40,778	$70,318	$32,702	$1,569,214	$1,752,603
Recordation Tax Exemption	$63,053	$0	$0	$0	$0	$63,053
Total	$102,643	$40,778	$70,318	$32,702	$1,569,214	$1,815,655

The estimated value of the real property and recordation tax exemption from FY 2013 through FY 2047 is approximately $1.82 million, 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.

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.*

SOME provided the OCFO with financial statements, projected cash flows, financing agreements, and other pertinent contracts and documents. Based on the OCFO's analysis of the information provided, the project does not have sufficient funding sources to pay recordation tax, nor sufficient projected operating cash flow to pay annual real property tax payments.

SOME anticipates financing the project using the following sources:

SOURCES	
DCHFA Senior Funding	2,398,460
DHCD Subordinate Loan	1,784,421
Second DHCD Subordinate Loan	1,135,000
Low Income Tax Credit Equity	1,583,301
SOME Subordinate Cash Flow Loan	532,412
Deferred Developer Fee	404,630
Total Financing Sources	7,838,224
USES	
Construction and Rehabilitation Costs	4,633,900
Financing Costs	1,078,548
Acquisition	1,300,000
Developer Fee	825,776
Total Financing Uses	7,838,224

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

The project requires the proposed property tax exemptions at least while it is repaying its senior debt. Without the proposed exemptions, cash flow from project operations is insufficient to be able to repay, prior to their maturity, all of the subordinated DHCD loans or any of the cash flow loan funded by SOME.

A large proportion of the project's operating expenses will go toward on-site staff salaries. These salaries are higher than operations staff salaries of the average multi-family subsidized housing facility in the Washington DC metropolitan area. SOME states that due to the highly disadvantaged resident population, the on-site Program Manager and Case Manager positions must be filled by individuals with advanced education and professional experience.

The project's mortgage is expected to be paid off by FY 2047. Therefore, the OCFO recommends that the necessity for an exemption beyond FY 2047 be reviewed at that time.

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*

SOME's senior financing includes a DCHFA first mortgage and a DHCD loan inherited from NCFN at the time of purchase. An additional, new subordinate loan will be provided by DHCD in the amount of $1.78 million. SOME will defer 49 percent of its earned developer fee and also will contribute $532,412 in the form of a cash flow loan. Finally, the project will generate investor equity of about $1.58 million, or 32 percent of total project costs, through the sale of the LIHTCs.