

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
Acting Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: June 22, 2012

SUBJECT: "Meridian Public Charter School - Harrison Campus Property Tax
Exemption Amendment Act of 2011"

REFERENCE: Bill Number 19-577

Findings

The tax exemptions proposed by Bill 19-557 are necessary through FY 2019 if the District would like to support Meridian Public Charter School in its mission to operate a public charter school at the Harrison School location¹.

The Office of the Chief Financial Officer (OCFO) finds that the imposition of possessory interest, deed recordation and transfer taxes would negatively impact the school's ability to complete renovation to the property. If the property were subject to such taxes, the estimated cost would be \$925,534 through FY 2019.

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.

Background

Meridian Public Charter School (Meridian) is a District-certified nonprofit charter school that is relocating to the Harrison School to address its student capacity needs.² Meridian is leasing the

¹ The property is located in Square 235, Lot 814 at 2120 13th Street, N.W.

² Meridian's current campus is located at 1328 Florida Avenue, N.W.

property from the District through a 25-year ground lease, which began in October 2011. Meridian is undertaking extensive renovation of the property, and is expected to reach construction completion by August 2012.

Meridian is obtaining the bulk of its financing through the federal New Market Tax Credit (NMTC) program. As per the requirements of the NMTC program, Meridian created an entity called Meridian-Harrison QALICB³ to receive the funds loaned by NMTC investors. Meridian then transferred its leasehold interest in the property to the QALICB. Because this type of transfer is not specifically included in current District law, Meridian has requested the proposed legislation in order to clarify the property’s eligibility for an exemption. Temporary and permanent legislation were passed to exempt the QALICB, but the temporary bill expires on July 25, 2012. For this reason, permanent legislation is being proposed.

The proposed legislation would exempt the QALICB from possessory interest taxes, as well as deed recordation and transfer taxes.

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.

Terms of the Exemption or Abatement

The legislation states that the property shall be permanently exempt from possessory interest and deed recordation and transfer taxes as long as the real property continues to be owned or occupied under a ground lease by Meridian or the QALICB.

Annual Proposed Value of the Exemption or Abatement

The expected value of each type of tax exemption proposed is:

Projected Value of Partial Tax Exemptions for QALICB						
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 - FY 2019	TOTAL FY 2011- FY 2019
Possessory Interest Tax Exemption	\$18,616	\$74,465	\$79,157	\$81,531	\$361,653	\$615,423
Deed Recordation and Transfer Tax Exemption	\$245,944	\$ -	\$ -	\$ -	\$64,167	\$310,111
TOTAL	\$264,561	\$74,465	\$79,157	\$81,531	\$425,820	\$925,534

Given the temporary and emergency legislation that was passed, Meridian did not pay taxes in FY 2011 or FY 2012. As a result, there would be no need to refund any taxes to the organization.

³ QALICB signifies a Qualified Active Low Income Community Business, Inc.

After FY 2019, Meridian expects to unwind the NMTC structure. At this point, the QALICB will cease to exist and the leasehold interest in the property will revert back to Meridian. At that point, Meridian could apply for an as-of-right exemption under current District law concerning nonprofit educational providers.

Summary of the Proposed Community Benefits

A summary of the proposed community benefits, as provided by Meridian, is attached to this analysis.

Financial Analysis for Development Projects

1. Review and Analysis of the Financing Proposal Including Advisory Opinion Stating Whether or Not It is Likely that the Project Could Be Financed Without the Proposed Exemption or Abatement

Based on the OCFO’s analysis of the financial information provided by Meridian, neither Meridian nor its QALICB have the ability to pay possessory interest, deed recordation, or transfer taxes on the property. Meridian’s immediate financing obligations include making required interest and sinking fund payments on its NMTC financing, and making additional equity contributions to the renovation project for additional costs identified after renovation began. In addition, Meridian is obligated under its loan covenants to achieve certain cash flow coverage ratios, which if not met, could result in a default and unwinding of the loan. Meridian also needs to set aside funds toward a \$10 million “balloon” payment that will be required on the NMTC loan upon its maturity in FY 2019.⁴

Finally, in addition to meeting the above obligations, Meridian plans to operate in a fiscally prudent manner by maintaining sufficient operating reserves. Payment of the taxes as projected above would negatively impact Meridian’s planned operations.

The project’s current pro forma proposes the following sources and uses:

SOURCES	
NMTC Financing	12,500,000
Equity - Cash	3,166,857
Equity - CityBuild	
Grant	1,000,000
Office of the State Superintendent for Education	
Grant	<u>50,000</u>
Total Financing Sources	16,716,857
USES	
Construction, Contingency, and Testing Costs	14,625,743
Utilities and Local Fees/Permits	270,000
Closing and Financing Fees/Payments	1,821,114
Total Financing Uses	16,716,857

⁴ This structure is common in NMTC projects.

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

If the Council seeks to support Meridian in its mission to operate a public charter school, a 100 percent tax exemption is necessary through FY 2019 in order for Meridian to pay debt service, meet financial covenants, and reserve remaining cash flow to service its NMTC balloon payment in FY 2019.

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

Meridian has been able to secure alternate financing in the form of NMTC (\$12.5 million) as well as a \$1 million grant that went toward its equity contribution. Additional debt financing for the project would be unlikely to be acquired at this time.