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

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Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

TO:	**The Honorable Vincent C. Gray** **Mayor, District of Columbia** **The Honorable Kwame R. Brown** **Chairman, Council of the District of Columbia**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	**March 22, 2012**
SUBJECT:	**"The Elizabeth Ministry, Inc. Affordable Housing Initiative Real Property Tax Relief Act of 2011"**
REFERENCE:	**Bill 19-443**

Findings

The tax exemptions included in the proposed legislation are necessary through FY 2021, if the Council chooses to continue to support The Elizabeth Ministry, Inc. in its efforts to create an enhanced and supportive independent living environment for young mothers transitioning out of the foster care system. While the legislation would authorize the tax exemptions through FY 2046, the property's current first mortgage is scheduled to be fully repaid in 2021 and the OCFO recommends that the necessity for an exemption beyond FY 2021 be reviewed at that time. This finding is based on the information submitted to the Office of the Chief Financial Officer by the project owner, as well as additional information from the Child and Family Services Agency and the Department of Housing and Community Development.

The total value of the exemption as proposed in the draft legislation would equal approximately $1.7 million. If Council passed an exemption only through FY 2021, its value would total approximately $500,000; both estimates include a retroactive tax exemption back to FY 2007 of $61,915.

Notwithstanding the findings presented in this analysis, the proposed legislation may have an effect on the District's FY 2012 through FY 2015 budget and financial plan. Please see the separate fiscal impact statement.

Background

In 2007, The Elizabeth Ministry, Inc. (the Ministry) purchased two adjacent 15-unit low-rise residential properties with the intent to create a supportive housing environment for young mothers and their children transitioning out of the foster care program. The District's foster care program is managed by Child and Family Services Administration (CFSA). The properties, located on 55th Street, SE, in Deanwood, were acquired first with bridge financing, then with a Housing Production Trust Fund loan from the District's Department of Housing and Community Development (DHCD). The Ministry held the property from 2007 through 2009, when it secured construction financing and began a substantial renovation. The construction was completed in December 2011.

The 30 units in the original property have been converted to 27 two-bedroom units, with the intent that 25 will be occupied by teen mothers with one child, and two will be occupied by housemothers employed by the Ministry. Three of the original units were converted to a day care facility for the children at the site. All Certificates of Occupancy have been received, and the Ministry is in the process of completing its application to CFSA. The Ministry expects to begin providing housing and supportive services sometime this spring.

In 2007, the Ministry applied for a tax exemption for the site as a public charity. From 2007 through 2009 this exemption was denied due to lack of any progress on construction. (For part of this time the Ministry continued to collect rent from tenants who remained on the site at the time of purchase.) Once construction began, the Ministry was granted an as-of-right exemption on the day care center portion of the site; however, the District Code does not provide for an as-of-right exemption for the residential portion of the Property[1].

Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the Office of the Chief Financial Officer (OCFO) to contain certain information. The required information is included below.

<u>Terms of the Exemption or Abatement</u>

The proposed legislation would exempt from real property taxes the property located in Square 5252, Lots 140 and 141 (the Property) for 40 years. The 40-year period would apply retroactively to 2007, when the Ministry first purchased the Property (and therefore the legislation would entitle the Ministry to a refund for payments made from 2007 through 2011). The first 30 years of the tax exemption would be a 100 percent exemption. In the 31st year, the Ministry would pay 10 percent of its real property tax, and an additional 10 percent of the tax each of the following years, so that property would pay 100 percent of its annual real property tax beginning in 2046. The exemption would be available as long as 1) there is no ownership change and 2) the property consists of at least 27 affordable rental apartments and an onsite subsidized child development center, all of which are reserved for teens in foster care or in the homeless system.

[1] In a March 2011 letter to The Ministry, the Office of Tax and Revenue determined that the residential portion did not qualify for an as-of-right exemption because "the regulations provide that housing is considered 'public charity' only if 'continuous support and rehabilitative services to transient tenants, or continuous support services and care for the disabled or terminally ill.' Neither of these are true for the property at hand."

Annual Proposed Value of the Exemption or Abatement

The OCFO estimates the value of the exemption as proposed in the draft legislation to be[2]:

Projected Value of Real Property Tax Exemption for The Elizabeth Ministry, Inc.	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 – FY 2046	Total FY 2007-FY 2046
Real Property Tax Exemptions	$31,582	$48,656	$40,204	$41,250	$1,512,967	**$1,674,658**
FY 2007- FY 2011 Real Property Tax Refund	$61,915					**$61,915**
Total	$93,497	$48,656	$40,204	$41,250	$1,512,967	**$1,736,573**

If the exemption were approved only through FY 2021 as recommended by the OCFO, the expected value would be $494,629.

The estimated value of the exemption in FY 2012 includes, pursuant to the proposed legislation, a refund of prior years' taxes paid. For real property taxes applicable to FY 2012, the value of the exemption will be $31,582. This annual amount will increase in FY 2013 once the assessment is amended to fully reflect the completion of major renovations to the property

Summary of the Proposed Community Benefits

The stated community benefits as submitted by the owner are:

> The Elizabeth Ministry's project will provide 27-affordable housing units—25 units are specifically for the young women and their babies near aging out of the City's foster care system; and two units will be for two full-time house mothers who will live onsite with the young women and their children. The unit rents are set at 50% Area Median Income for the young women, and 30% of Area Median Income for the house mothers. There are three ADA compliant units on site. All segments of the property are handicapped accessible. The program will create 15 full-time, permanent and 7 part and flex-time, permanent jobs—all of which are envisioned to go to residents of the District of Columbia.
>
> Further community benefits and amenities include new sidewalks; new water and sewage systems; the elimination of blight associated with the two properties that have now been completely refurbished; new green space; a new playground for resident and neighborhood children.

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*

[2] FY 2013 is the first full year of the exemption, and the assessed value is expected to be based on the cost of acquisition and hard costs of construction. FY 2014 is the second year and the property's assessment value is likely to be based on income or comparables. Beginning in FY 2015, the value is assumed to increase by 2.6% annually.

This development project has already been financed and has reached completion without a real property tax exemption. However, no revenue is currently being generated by the property to support debt service and operations. The contract with CFSA and subsequent occupancy by the foster care mothers has been delayed from the originally projected schedule. Due to the organization's reliance on grant funding and its current lack of CFSA income, the OCFO recommends that a refund of taxes paid back to FY2007, totaling $61,915, is necessary for the Ministry to advance toward its goal of beginning service location at the property.

The Ministry is in the licensing and application process with CFSA and hopes to begin housing young women and their children in the near future. Based on information from CFSA, this process may take 3 to 6 months, and it is unlikely that all of the units will be given a CFSA contract this year. The contracted CFSA rate for these services at other facilities averages $247 per day. If CFSA were to enter into a contract for all 25 units, the projected CFSA income will provide most, but not all, of the funds required to support the scope of services that they plan to provide to the young women. The Ministry will need to raise additional funds to fully provide for the planned supportive services, and to subsidize any non-CFSA teen mothers that may have a lower rate of subsidy (*e.g.* from vouchers provided by the Office of the State Superintendant of Education). The projected income for the Ministry would also be sufficient to pay the debt service and maintenance on the property, but not to pay the real property taxes.

The 2012 annual budget for the Ministry is proposed to be $2.4 million and will depend on the organization securing grants in addition to its CFSA and other income.

Projected Annual Budget		
Income		
CFSA Service Income		$ 1,411,425
OSSE Voucher Income		236,386
Rental Income		18,600
Fundraising		760,381
	Total	2,426,791
Expenses		
Cumulative Program Operations		1,899,323
Child Development Center		145,079
Building (1)		382,389
		$ 2,426,791

1. Building includes debt service and operations

Within the budget, Cumulative Program Operations includes:

- Case Management;
- Family Relations and Parenting;
- Psycho-Social Development;
- Mentoring and Spiritual Development; and
- Educational, Employment, and Economic Self Sufficiency.

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

The project has already been financed and completed. However, if the Council seeks to support the Ministry in its mission to house and support young women at risk and their young children, a 100 percent exemption is necessary through FY 2021 in order for the Ministry to have adequate cash flow to pay the debt service on the property and to provide a wide range of supportive services.

Through FY 2021, debt service on the first mortgage will cost the Ministry approximately $310,000 per year, when that mortgage is projected to be paid off. After that time, there could be sufficient revenues at the project to pay real property taxes. Therefore, the OCFO recommends that the necessity for an exemption beyond FY 2021 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*

The Ministry has financed the acquisition of the property with bridge financing from DC Local Initiatives Support Corporation, and DHCD provided a Housing Production Trust Fund loan to take out the acquisition financing on a permanent basis. Construction/permanent financing for the buildings' rehabilitation was obtained from United Bank for $2.3 million and an increase in the DHCD loan. The United Bank first mortgage has an interest rate of 6.25% and a ten-year term. The DHCD financing, totaling approximately $5 million, is subordinate to the United Bank loan and has an interest rate of 1.5%. The debt service for these two loans will be paid primarily through the revenues received from CFSA as a licensed facility.

Sources and Uses	
Sources	
First Mortgage	2,300,000
Soft Second Mortgage	4,994,585
Total Financing Sources	**$7,294,585**
Uses	
Acquisition	2,401,570
Predevelopment Costs	468,631
Construction	3,322,618
Soft Costs	379,402
Financing Cost	351,403
Developers Fee	138,012
Reserves	232,949
Total Financing Uses	**$7,294,585**