

A RESOLUTION

23-138

IN THE COUNCIL OF THE DISTRICT OF COLUMBIA

June 18, 2019

To declare the existence of an emergency with respect to the need to provide a real property tax exemption for Lots 824 and 826, Square 2950.

RESOLVED, BY THE COUNCIL OF THE DISTRICT OF COLUMBIA, That this resolution may be cited as the "Children's Hospital Research and Innovation Campus Phase 1 Emergency Declaration Resolution of 2019".

Sec. 2. (a) In November 2016, Children's National at Walter Reed, LLC ("CNWR") received approximately 11.85 acres of land and buildings ("Property") from the Department of the Army through an Act of Congress. The land required significant environmental remediation, and, in order to insulate Children's Hospital, a nonprofit children's hospital, from potential liability, CNWR was formed. CNWR is a wholly-owned subsidiary of Children's Hospital that has been designated by the Office of Tax and Revenue ("OTR") as a tax-exempt entity for purposes of real property taxes.

(b) The Property was conveyed to CNWR with a restriction in the deed limiting the Property's use to public health purposes, including research, with a requirement that the Property be owned by Children's Hospital, an affiliate of Children's Hospital, or another tax-exempt organization.

(c) Children's Hospital plans to develop the Property in multiple phases over several years. The first phase ("Phase 1") will include a pediatric research and innovation facility and an outpatient pediatric health center, both of which will be operated by Children's Hospital.

(d) The Property is located in a census tract that makes it eligible for federal New Markets Tax Credits ("NMTC") and Opportunity Zone tax benefits. Additionally, certain buildings on the Property are eligible for Historic Rehabilitation Tax Credits ("HTC").

(e) In order to leverage all financing options and ensure completion of the pediatric research and innovation campus, the Property needs to retain its current tax exemption of 93%. OTR made an administrative exemption determination that 93% of Phase 1 was exempt from real property tax, and the remaining 7% would be taxed and paid by Children's Hospital. The purpose of the emergency legislation is to maintain OTR's administration exemption determination.

(f) Pursuant to federal tax credit requirements and in anticipation of HTC and NMTC

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financing, Children’s Hospital formed 2 additional limited liability companies, one for each parcel in Phase 1, Building 52/53 NMTC Borrower LLC (“Building 52/53 LLC”) and Building 54 NMTC Borrower LLC (“Building 54 LLC”). Children’s Hospital is the managing entity and would be the 90% owner of both limited liability companies. Tax credit investors would own the remaining 10%.

(g) If Children’s Hospital proceeds with the HTC and NMTC financing for Phase 1, CNWR will enter into a 99-year ground lease with Building 52/53 LLC for future Lot 824, Square 2950 and Building 54 LLC for future Lot 826, Square 2950 (both lots are currently part of Lot 808, Square 2950), but the Phase 1 Property would ultimately be leased to and used by Children’s Hospital on substantially the same terms that would apply without the HTC and NMTC financing. If the proposed leases to Building 52/53 LLC and Building 54 LLC result in the Property being subject to real property taxes, CNWR would be liable for approximately \$2 million dollars in real property taxes annually for the duration of the ground leases. The sole reason for creating the additional entities is to take advantage of the HTC and NMTC financing, which will result in a net economic benefit to Children’s Hospital of approximately \$21 million. The HTC and NMTC compliance periods end in approximately 7 years, at which time the ground leases may be terminated.

(h) An emergency exists because the window of time to close on the HTC and NMTC financing is June 30, 2019. Without the economic benefit from these federal tax credits, Children’s Hospital will not be able to finance Phase 1 or the foreseeable project as planned.

(i) The emergency legislation was written with OTR to ensure full implementation and zero fiscal impact.

Sec. 3. The Council of the District of Columbia determines that the circumstances enumerated in section 2 constitute emergency circumstances making it necessary that the Children’s Hospital Research and Innovation Campus Phase 1 Emergency Amendment Act of 2019 be adopted after a single reading.

Sec. 4. This resolution shall take effect immediately.