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

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: **The Honorable Linda W. Cropp**
Chairman, Council of the District of Columbia

FROM: **Natwar M. Gandhi**
Chief Financial Officer

DATE: NOV 30 2005

SUBJECT: **Fiscal Impact Statement: "Residential Energy Conservation Tax Credit Act of 2005"**

REFERENCE: **Bill Number 16-461 as Introduced**

Conclusion

Funds are not sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the proposed legislation because additional resources will be required. The proposed legislation would result in an income tax revenue reduction of approximately $3.89 million in FY 2006 and an overall income tax revenue reduction of $14.96 million for the period FY 2006 through FY 2009. The FY 2006 cost includes $200,000 in one-time operational improvements necessary for the District to process the proposed tax credits.

Background

The proposed legislation implements new tax credits for improvements made to District residences that provide energy cost savings to the owner(s) of the property. The proposed legislation makes additions to Chapter 18 of Title 47. Among the proposals are:

- A 25 percent tax credit for adding triple pane windows, door insulation, or caulk for windows;
- A 20 percent credit for insulating water, air ducts or HVAC systems;
- A 20 percent credit for insulating doors, walls or ceilings;
- A 20 percent credit for acquiring energy efficient appliances or adding ceiling fans;
- A 15 percent credit for replacing lighting systems with energy efficient fixtures; and

- A 10 percent credit for replacing thermostats or light switches with programmable systems.

In addition, the proposed legislation imposes limitations to these credits in amounts from $50 to $200.

The proposed legislation also establishes a tax credit equal to an amount of 5 percent of the purchase price of new homes constructed after January 1, 2004, and certification that the residence is 50 percent or more energy efficient that the 1995 model energy code (MEC) at the closing. This credit is limited to no more than $2,000.

All tax credits implemented by the proposed legislation require an application to be filed with the Mayor through the Office of Tax and Revenue. The application process will require original receipts reflecting the energy conservation expenses. For tax year 2005 the application must be developed by April 1, 2006. The proposed legislation stipulates that if the required applications are not filed the credit(s) will not be allowed. Fraudulent applications will be subject to existing tax collection process and law.

Financial Plan Impact

It is estimated that the proposed home improvement credits will reduce individual income tax collections by an estimated $3.28 million in FY 2006 and $13.12 million in FY 2006 through FY 2009. The table in Figure 1 illustrates the estimated revenue impact on the District's financial plan.

Figure 1.

Estimated Reductions in Income Tax Collections
($ in millions)

Item	FY 2006	FY 2007	FY 2008	FY 2009	4 - Year Total
Home Improvement Credits	($3.28)	($3.28)	($3.28)	($3.28)	**($13.12)**
Home Purchase Credit	(0.39)	(0.39)	(0.39)	(0.39)	**(1.56)**
Net Annual Impact	**($3.67)**	**($3.67)**	**($3.67)**	**($3.67)**	**($14.68)**

It is estimated that the proposed home purchase type credit(s) will reduce individual income tax collections by an estimated $0.39 million in FY 2006 and $1.56 million in FY 2006 through FY 2009. The table in Figure 1 illustrates the estimated impact of these provisions on the District's financial plan.

The Office of Tax and Revenue (OTR) will require additional resources in order to implement the provisions of the proposed legislation. An additional $200,000 will be required for programming

changes to process the newly established credits. OTR will also require an additional $20,000 for developing and amending tax forms and instructions required to implement the new tax credits. The table in Figure 2 presents the operational costs associated with implementing the proposed legislation.

Figure 2.

Estimated Unbudgeted Operational Impacts ($ in millions)					
Item	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**4 - Year Total**
Systemic Changes	($0.20)	$0.00	$0.00	$0.00	**($0.20)**
Amended Form(s)	(0.02)	($0.02)	($0.02)	($0.02)	**(0.08)**
Net Annual Impact	**($0.22)**	**($0.02)**	**($0.02)**	**($0.02)**	**($0.28)**

The proposed legislation would result in a negative fiscal impact on the local General Fund of $3.89 million in FY 2006 and an overall impact of $14.96 million for FY 2006 through FY 2009 as illustrated in the summary table in Figure 3.

Figure 3.

Estimated Impacts to the Financial Plan ($ in Millions)				
FY 2006	**FY 2007**	**FY 2008**	**FY 2009**	**4 - Year Total**
($3.89)	($3.69)	($3.69)	($3.69)	**($14.96)**