

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 [signature]  
Chief Financial Officer

**DATE:** June 22, 2004

**SUBJECT:** Fiscal Impact Statement: "Homeowner Lead Service Line Tax  
Credit Amendment Act of 2004"

**REFERENCE:** Bill 15 - 678, Title II, Subtitle K; "Fiscal Year 2005 Budget  
Support Act of 2004" - An Amendment

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**Conclusion**

Funds are not sufficient in the FY 2005 through FY 2008 budget and financial plan as agreed to by the Mayor and the Council of the District of Columbia. **Implementing the proposed legislation will cause unbudgeted reductions in individual income tax revenue of approximately \$1.5 million in FY 2005 and \$7.5 million in FY 2005 through FY 2008.**

**Background**

The proposed title provides a tax credit for low-income persons who have lead contamination in the water services lines between their homes and the water main-lines throughout the City. Based on the federal Department of Housing and Urban Development's (HUD) index of Area Median Income (AMI) the District of Columbia falls in a region which also contains Maryland, Virginia and West Virginia. The AMI for a low-income household of 4 persons is currently \$57,500.

The proposed title adjusts this index by increments of 10 percentage points when the number of persons in the household changes. Qualified residences must also be owner-occupied and persons receiving the credit must file individual tax returns in the District. The taxpayer will attach a certification by the Water and Sewer Authority (WASA) to the tax return. A copy of the original invoice and proof of payment will also be required. Expenditures for replacement of water pipes must be after December 31, 2003.

The tax credit will be calculated by the following method:

- If the taxpayer exceeds the AMI by 61 percent, the credit is 15 percent of the expenditure for the waterline replacement;
- If the taxpayer is between 51 to 60 percent of the AMI, the credit is 20 percent of the expenditure for the waterline replacement;
- If the taxpayer is between 41 to 50 percent of the AMI, the credit is 25 percent of the expenditure for the waterline replacement; or
- If the taxpayer is between 31 to 40 percent of the AMI, the credit is 30 percent of the expenditure for the waterline replacement.
- If the taxpayer is below 31 percent of the AMI, or if the tax credit exceeds the taxpayers total taxable income for the year, the tax payer may claim a refund in the amount of the excess.

Tax credits may not be claimed against any other liability and unexpended credits may be carried forward to any tax year until fully expended. The maximum allowable credit is \$600. The proposed title expires on December 31, 2008.

### Financial Plan Impact

Funds are not sufficient in the FY 2005 through FY 2008 budget and financial plan as agreed to by the Mayor and the Council of the District of Columbia. Assuming the population of homes with contaminated lead service lines is approximately 23,000, and that 54.7 percent of them will trigger the low-income eligibility provisions of the proposed title, an estimated 12,581 homes could be eligible to receive the credit.

If the maximum allowable credit of \$600 is achieved in every circumstance, individual income tax revenue could be decreased by \$7.5 million. Tax credits carried over to subsequent tax years would reduce the burden on District revenue collections by an equal amount. In addition, it is assumed that replacement expenditures would occur over a four-year period. The table in figure 1 estimates the reductions in individual income tax revenue assuming 60 percent of the credits will be applied in tax years 2006 and 2007.

*Figure 1.*

| <b>Estimated Revenue Reductions Impacting the Financial Plan</b> |                |                |                |                       |
|--|----------------|----------------|----------------|-----------------------|
| (\$ in millions)   |                |                |                |                       |
| <b>FY 2005</b>   | <b>FY 2006</b> | <b>FY 2007</b> | <b>FY 2008</b> | <b>4 - Year Total</b> |
| \$1.50   | \$2.25         | \$2.25         | \$1.50         | <b>\$7.50</b>         |