

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



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: JAN -3 2008

SUBJECT: Fiscal Impact Statement: "Constitution Square Economic Development Act of 2007"

REFERENCE: Bill Number 17-344, Committee Print

Conclusion

Funds are not sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the Constitution Square Economic Development Act of 2007 (B17-344). Starting in FY 2009, the proposed legislation (B17-344) would result in a negative fiscal impact of \$7.0 million on the local General Fund for the FY 2008 through FY 2011 financial plan period, as follows:

Fiscal Impact (\$ millions)				
FY 2008	FY 2009	FY 2010	FY 2011	4 - Year Total
\$0	\$0.5	\$1.2	\$5.3	\$7.0

Background

The proposed legislation ("Act") would amend Title 47 of D.C. Official Code to provide a real property tax abatement to "CS Master V, LLC" ("Developer") for the "Constitution Square Project" ("Project"), located on Lot 160 in Square 711 ("Property"). The Project includes the acquisition, development, construction, installation, and equipping of the facilities located on the Property. The planned facilities consist of:

- Approximately 1,000 units of residential units;
- Approximately 80,000 square feet of retail space;
- Approximately 1.2 million square feet of commercial office space;
- Approximately 50,000 square feet of space for a grocery store; and
- Other ancillary improvements.

The proposed legislation would subsidize the development of the Property through an exemption from real property tax increases above the projected average growth in District-wide real property tax revenue for the FY 2008 through FY 2011 period. The owners of the Property would continue to pay the current (Tax Year 2008) real property taxes, \$2.1 million per year, adjusted annually for projected growth in real property tax revenues for the District as a whole.¹

- The proposed legislation would limit the amount of real property taxes that the Property owner must pay in each year of the FY 2008 through FY 2011 financial plan period by applying the rule that the assessed value of the property will grow at a rate equal to the average growth rate in District-wide real property tax collections (approximately 7% per year under the current financial plan).
- Thus, subject to the proposed cap on the abatement, for FY 2009, taxes above 107% of taxes paid in 2008 would be abated; for FY 2010, taxes above 113.96% of taxes paid in 2008 would be abated; and for FY 2011, taxes above 121.25% of taxes paid in 2008 would be abated.²
- From a currently-assessed value base of \$2.1 million in FY 2008, subject to the proposed cap on the abatement, the tax liability under the proposed legislation would grow to \$2.5 million in FY 2011, totaling \$9.1 million in the FY 2008 through FY 2011 budget and financial period.
- Any pre-subsidy tax liability that would normally occur above the adjusted amount would then be abated for 10 consecutive property tax years starting in the tax year in which the Developer begins developing the Property.
- However, the total sum of this abatement has a limit – a “cap” equal to an amount of \$6.0 million plus annual increases of 6% of the value of the unused abatement.

Impact on the FY 2008-2011 Financial Plan

Table 1 presents detail on the calculation of the cost of B17-344 to the four-year financial plan.

Based on current expectations about the growth in the Property’s neighborhood, the estimated tax liability would sum to \$18.8 million in the FY 2008 through FY 2011 period, in the absence of the subsidy. Constitution Square is in a neighborhood that has experienced above-average growth in property assessment (for land and buildings alike) in recent years. Based on these recent trends and on the location of the Property, the Property value is expected to continue

¹ The Office of Tax and Revenue (OTR) has assigned a 2008 assessed value to the Property of \$110,966,000. At the commercial rate of \$1.85 per \$100 of assessed value, the tax liability for 2008 would be \$2,052,871.

² The percentages are derived from the Office of the Chief Financial Officer’s quarterly revised revenue certification letter dated September 6, 2007.

growing at above-average rates in the financial plan period. The annual neighborhood rate of growth in land value for FY 2009 and FY 2010 is estimated to be 30 percent per year, well above the likely growth in the all-city average.³

Table 1.
Estimated Fiscal Impact from the
Constitution Square Economic Development Act of 2007
Bill 17-344
 (\$ in millions)

Calculation of Fiscal Impact	FY 2008	FY 2009	FY 2010	FY 2011	4 – Year Total
(a) Tax Liability Under B17-344 (No Cap)	\$2.1	\$2.2	\$2.3	\$2.5	\$9.1
(b) Tax Liability Under Current Law (No Subsidy)	\$2.1	\$2.7	\$3.5	\$10.5	\$18.8
(c) Financial Cost without Cap (a-b)	\$0.0	\$0.5	\$1.2	\$8.0	\$9.7
(d) Available Abatement Before Interest	\$6.0	\$6.0	\$5.9	\$5.1	
(e) Interest Amount (6% of d)	\$0.0	\$0.4	\$0.3	\$0.3	
(f) Available Abatement After Interest (d+e)	\$6.0	\$6.4	\$6.2	\$5.4	
(g) Fiscal Impact (b-a)	\$0.0	\$0.5	\$1.2	\$5.3⁴	\$7.0
(h) Unused Abatement with Interest (f-g)	\$6.0	\$5.9	\$5.1	\$0.0	
(i) Tax Liability Under B17-344 (With Cap) (b-g)	\$2.1	\$2.2	\$2.3	\$5.2	\$11.8

Note: See Footnote 4 for an explanation of the methodology used in calculating the "tax liability under current law."

Thus, without considering the cap on the abatement, the four-year (FY 2008 through FY 2011) cost to the financial plan would be \$9.7 million. Because the proposed legislation caps the amount of the subsidy, the actual loss to the District will be \$7.0 million rather than the full \$9.7 million.⁵

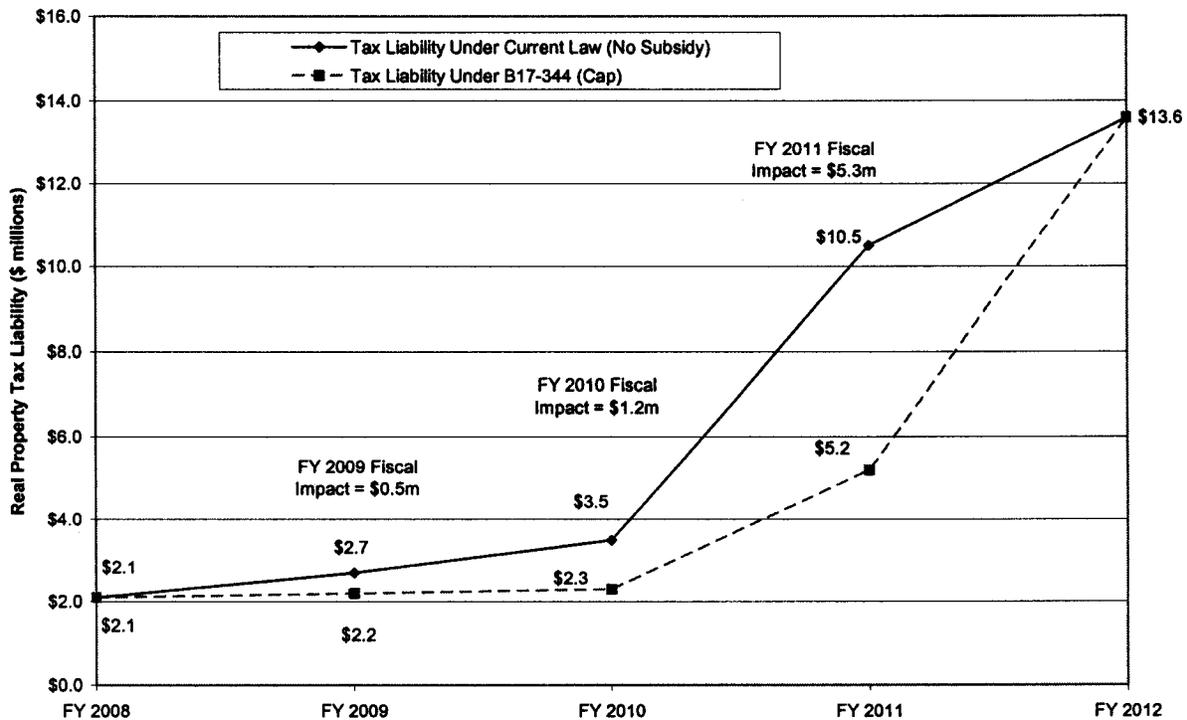
³ The estimate of 30% is conservative. It is based on the FY 2006 through FY 2008 average annual growth rate in land value in the neighborhood in which Constitution Square is located – 35%. Confidence in the 30% estimate is buttressed by the fact that the Constitution Square Project is a large, mixed-use development located in an emerging neighborhood and is located adjacent to the New York Avenue Metro Station.

⁴ The fiscal impact (line g in Table 1) in FY 2011 is the residual abatement that is applied to the tax liability in FY 2011. Without the cap, the financial cost would be \$8.0 million in FY 2011 (line c in Table 1). However, because the cap limits the cost to \$7.0 million, the fiscal impact in FY 2011 is derived by subtracting the abatement amounts used at this time from the total cap of \$7.0 million (\$7.0 m - \$0.5 m - \$1.2 m = \$5.3 m). The fiscal impact of the proposed bill will be counted as a reduction in revenue in the FY 2008 through FY 2011 period.

⁵ The estimate of the expected average growth rate in assessed value of the Property is based on an analysis of the average annual growth rate for land in the neighborhood (Redevelopment Land Authority – Northeast, Code: 044) for fiscal years 2005 through fiscal years 2008 (see Footnote 2 for details). It is then assumed that by FY 2011 the planned development on the Property will be realized (construction completed). Based on an examination of the

A graphical presentation of the arithmetic of B17-344 is presented in Figure 1. The bottom line in Figure 1 shows the property tax liability during the FY 2008 through FY 2011 financial plan as determined by the proposed Act. As shown in Table 1, the cumulative property tax payments for the FY 2008 through FY 2011 period would be \$11.8 million. The top line illustrates the expected growth path for the Property. The budgetary cost to the District is the sum of the cumulative annual differences between the two lines, which is \$7.0 million over the four-year period. Note that because the cap becomes effective in FY 2011, the additional provision that the abatement may run for 10 years will not have a fiscal effect.

Figure 1. Fiscal Impact of B17-344



share of land and improvements for multiple large, existing projects in the District, a land/improvements share of 43.1%/56.9% was applied to estimate the total (land and improvements) assessed value for the Property in FY 2011.