

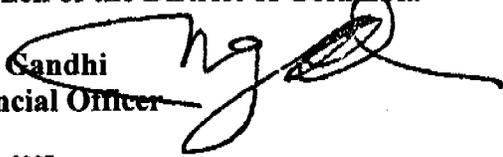
GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Chief Financial Officer



Natwar M. Gandhi  
Chief Financial Officer

**MEMORANDUM**

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

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

**DATE:** FEB -5 2007

**SUBJECT:** Fiscal Impact Statement: "Commercial Real Property Tax  
Credit Act of 2007"

**REFERENCE:** Bill Number 17-020

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**Conclusion**

Funds are not sufficient in the FY 2007 through FY 2010 budget and financial plan to implement the provisions of the proposed legislation. The proposed legislation would result in reduced revenue to the District of Columbia of \$228.9 million in FY 2007 and \$1.2 billion in the FY 2007 through FY 2010 period.

**Background**

The proposed legislation would amend Chapter 8 of Title 47 the District of Columbia Official Code to provide a cap on real property tax increases to owners of commercial and non-owner-occupied residential property. Specifically, the proposed legislation would add a new section (§ 47-817.01) to D.C. Official Code to limit the amount of real property tax increases for qualifying properties to 10% of the previous year's tax, starting in fiscal year 2007. There is no provision in current District law limiting increases in property tax for commercial and non-owner-occupied residential property.

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<sup>1</sup> The legislation would apply to Class 2 (Commercial) and part of Class 1 property. Specifically, the legislation would apply to properties not in Class 3 and to all Class 1 properties not eligible for a credit under the "Owner-Occupant Residential Tax Credit" (D.C. Official Code § 47-864). The latter category of properties includes such property types as apartment buildings, parking spaces, parking lots, and parking garages.

Estimates for the cost of capping annual commercial property tax increases at 10% were derived by analyzing the most recent commercial property tax database from the Office of Tax and Revenue (OTR). Because no cap exists in current law, the cost of the cap was determined by taking the difference between commercial property tax levies in 2007 and the levy under a 10% cap. Outyear estimates were then based on projected growth in commercial property values compared to the effect of the cap.

In addition to a reduction of revenue, the proposed legislation would require OTR resources in order to implement it. Specifically, OTR would require three full-time equivalent (FTE) employees and programming changes.

### **Financial Plan Impact**

The proposed legislation would result in reduced revenue to the District of Columbia of \$228.9 million in FY 2007 and \$1.2 billion in the FY 2007 through FY 2010 period. Funds would have to be included in the FY 2008 budget and financial plan to implement the proposed legislation.

<b>Table 1. Impacts to the Financial Plan of the Commercial Real Property Tax Credit Act of 2007</b>					
<b>(S in millions)</b>					
<b>Item</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>4-Year Total</b>
Reduced Revenue Collections	\$228.4	\$270.2	\$320.1	\$374.4	\$1,193.1
Unbudgeted Operational Costs	\$0.5	\$0.2	\$0.2	\$0.2	\$1.1
<b>Net Annual Impact</b>	<b>\$228.9</b>	<b>\$270.4</b>	<b>\$320.3</b>	<b>\$374.6</b>	<b>\$1,194.2</b>