

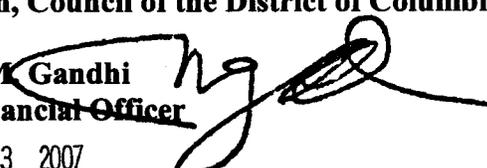
**Government of the District of Columbia
Office of the Chief Financial Officer**



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: APR -3 2007

SUBJECT: Fiscal Impact Statement: "Georgia Commons Real Property Tax Exemption and Abatement Act of 2007"

REFERENCE: Draft Bill to be Introduced - No Number Available

Conclusion

Funds are sufficient in the FY 2007 through FY 2011 budget and financial plan to implement the Georgia Commons Real Property Tax Exemption and Abatement Act of 2007.

Background

The proposed bill exempts Georgia Commons, located on Square 2906, Lots 848 and 849, from real property taxes. The property is currently owned by the National Capital Revitalization Corporation (NCRC) and the DHCD. The real property tax exemption begins when the parcels are transferred from the District entities to the private developer. The real property tax exemption ends after final inspections necessary for the issuance of the certificates of occupancy are completed for all of the housing units and for all of the rentable retail space.

After final inspections are completed for all of the housing units, the proposed bill authorizes the property to receive an annual real property tax credit of \$183,000. This annual credit will terminate following the earlier to occur of (i) 40 years or (ii) the date on which the housing is no longer subject to an FHA mortgage.

After final inspections are completed for all of the rentable retail space, the proposed bill authorizes the property to receive an additional annual real property tax credit of

\$145,148. This annual credit will terminate following the earlier to occur of (i) 25 years or (ii) the date on which the retail is no longer used for commercial or retail space.

The OCFO currently estimates that the tax exemption during the construction period will reduce expected real property tax collections by approximately \$196,000 over a 3 year period. The annual tax credit will reduce expected real property tax collections by \$328,148 each year.

The developer of Georgia Commons proposes to build 130 rental units, including 57 units available to households earning less than 80 percent of Area Median Income (AMI). The developer also plans to build 26,000 square feet of retail. The project will be financed with a combination of Federal Low Income Housing Tax Credits, an FHA-insured mortgage, Federal New Markets Tax Credits, D.C. Housing Production Trust Fund dollars, other Department of Housing and Community Development (DHCD) funds, and developer equity.

According to the current financing plan, the project has a financing gap of approximately \$3.7 million. The OCFO has not independently analyzed the gap. The proposed bill authorizes a real property tax exemption/credit for the property to close this gap. According to the developer, the real property tax exemption/credit will enable the project to receive sufficient financing to complete the project.

There is a question of whether the tax exemption and credit is the most effective way of providing the subsidy to the project. While the project may need approximately \$3.7 million to close the financing gap, the tax credit will cost the District an estimated \$5.4 million. This differential is created because the developer will need to monetize the value of the future tax credit to obtain upfront funds to construct the project.

Financial Plan Impact

Funds are sufficient in the FY 2007 through FY 2011 budget and financial plan to implement this bill. However, the proposed bill has the following two effects:

1. The tax exemption and tax credit impact the District's future budget and financial plan because the tax revenues from this property would have been included as additional revenue to the District in future years.
2. The proposed method of providing a subsidy to the project is expensive. According to the developer, the project requires approximately \$3.7 million in subsidy; yet the present value cost to the District is estimated to be \$5.4 million.

Summary Table						
Estimated Foregone Real Property Tax Collections						
<i>(S in 000s)</i>						
Item	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	5 - Year Total
Amount of Lost Real Property Taxes	(\$8,000)	(\$37,000)	(\$151,000)	(\$328,000)	(\$328,000)	(\$852,000)