

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: JUL -9 2007

SUBJECT: Fiscal Impact Statement: "H Street Playhouse Real Property Tax Exemption and Abatement Act of 2007"

REFERENCE: Bill Number 17-207 as Introduced

Conclusion

Funds are not sufficient in the FY 2007 budget and the proposed FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. The proposed legislation would result in a negative fiscal impact on the local General Fund of \$37,100 in FY 2008 and an overall impact of \$103,500 for FY 2008 through FY 2011.

Background

The proposed legislation would amend Chapter 10 of Title 47 of D.C. Official Code to exempt from taxation for an indefinite period of time real property, and personal property on said real property, known as the H Street Playhouse ("Playhouse"), described as Lot 1027 in Square 829 (located at 1365 H Street, NE).

The legislation stipulates that the property would remain exempt from taxation as long as the following conditions are met:

- The property is used to carry out activities as a theatre, playhouse, and a contributing neighborhood arts asset to the H Street, NE community ; and

- The property is leased exclusively to non-profit 501(c)(3) corporations organized and existing under the District of Columbia laws.¹

In addition, the proposed legislation would forgive and refund any real property taxes, interest, penalties, fees, and other related charges assessed against this real property for the period from October 1, 2006 through the effective date of the proposed act.

The proposed legislation would differ from other real property tax exemptions in the District because it would provide an exemption to a for-profit entity, H Street Playhouse LLC, which rents the property to a non-profit entity, Theater Alliance. The District has generally only granted real property tax exemptions to buildings owned and operated by non-profit entities. D.C. Official Code § 47-1002(19) requires that a building used for legitimate arts purposes must be owned and occupied by corporations not organized for commercial purposes in order to be eligible for a property tax exemption.

Financial Plan Impact

Funds are not sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. It is estimated that the proposed property tax exemption will reduce property tax collections by \$37,100 in FY 2008 and \$103,500 in the FY 2008 through FY 2011 period. Because the legislation specifies that all payments of real property taxes, interest, penalties, fees, and other related charges against the property would be forgiven from October 1, 2006 through the effective date of the legislation, the Office of Tax and Revenue (OTR) would be required to issue a refund of approximately \$18,000 in the first year of implementation. The figure for FY 2008 in the table below reflects both the reduced revenue (\$19,100) for FY 2008 and the amount of previously collected payments (\$18,000).

Estimated Impact to the Financial Plan of the H Street Playhouse Real Property Tax Exemption and Abatement Act of 2007

(\$ in 000s)

Item	FY 2008	FY 2009	FY 2010	FY 2011	4 - Year Total
Reduced Revenue Collections	\$37.1	\$20.7	\$22.1	\$23.6	\$103.5

Note: Total for FY 2008 includes the amount paid in FY 2007 that would have to be refunded - \$18,000.

¹ This condition is problematic. The legislation refers to a section of the Internal Revenue Code, 501(c)(3), but the District has its own criteria regarding eligible tax-exempt entities. Status as a 501(c)(3) does not automatically qualify an entity for tax-exempt status, as this legislation seems to imply.