

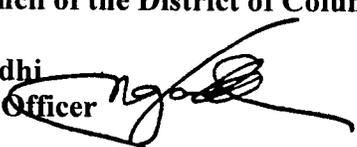
Government of the District of Columbia
Office of the Chief Financial Officer



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: December 16, 2008

SUBJECT: Fiscal Impact Statement: "Conversion Fee Clarification and
Technical Amendment Act of 2008"

REFERENCE: B17-179 Committee Print¹

Conclusion

Funds are sufficient in the FY 2009 through FY 2012 budget and financial plan to implement the proposed legislation.

Background

Under current District law, a five percent fee ("conversion fee") is charged on the sale price of each condominium unit that is converted from rental housing or on the proportionate value of a cooperative residence that is converted from rental housing. The revenue collected through the conversion fee is deposited into the Housing Assistance Fund ("Fund"), which is used to assist low-income tenants displaced by the conversion of rental housing into condominiums or cooperatives. Under current law vacant buildings are exempt from paying the conversion fee.

The proposed legislation would amend the D.C. Official Code § 42-3401.01 *et seq.* to eliminate the conversion fee exemption for vacant properties. While removing the vacancy exemption, the proposed legislation would also establish new exceptions to conversion fee, including conversions in which a rental unit is:

1. Sold to a low-income household;²

¹ Committee Print dated November 14, 2008. Received in ORA November 12, 2008.

2. Sold to the head of household of that unit who resided in that unit for at least one year prior to application for conversion; or
3. Sold to a person who is at least 62 years of age or disabled, and who has an annual household income of no greater than 100% of the area median income.

In addition to eliminating the vacancy exemption and to providing for new conversion fee exemptions, the proposed legislation would:

- Establish a revised process for payment of the conversion fee by requiring full payment of the fee into an escrow account at the time of settlement on the sale of the unit;
- Authorize the Mayor to impose civil fines, penalties, and fees for failure to pay the conversion fee;
- Prohibit owners from passing on the conversion fee in the purchase price of other units exempted from the fee;
- Standardize the process for determining "qualifying income" in making income-based determinations of exemptions;
- Change the exception-award process from a building-wide determination of vacancy to one that requires a unit-by-unit application process for new exceptions; and
- Authorize the Mayor to impose civil fines, penalties, and fees on any housing provider "unreasonably interferes" with or takes "retaliatory action" against a tenant for the purpose of causing a housing unit to become vacant.

Financial Plan Impact

Funds are sufficient in the FY 2009 through FY 2012 budget and financial plan to implement the proposed legislation.

The proposed legislation would require unit-by-unit tracking and processing of exemption applications and associated escrow payments. The Department of Housing and Community Development ("DHCD") reports that applications for conversions have slowed given a softer housing market. This trend is expected to continue since financing options for new residential development have shrunk with the collapse of markets for mortgage backed securities, the subsequent financial market crises, and the current recessionary outlook.

With the next upturn in housing markets, DHCD might be required to hire additional staff to administer the proposed exemption, which would have a negative fiscal impact, but it is not possible to make a determination on the timing of this upturn.

In addition, it is anticipated that the proposed legislation would eventually have a positive impact on Housing Assistance Fund revenues generated by units that are no longer eligible for vacancy exemptions; however, this effect is not quantifiable at this time.

² The proposed legislation would also change the definition of "low-income household" from one with less than 60% of area median income to one with no greater than 80% of area median income.