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 2, 2009**
SUBJECT:	**Fiscal Impact Statement – "Campbell Heights Residents Project Real Property Tax Exemption Act of 2009"**
REFERENCE:	**Bill Number 18-490, As Introduced**

Conclusion

Funds are not sufficient in the proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation. The proposed legislation would reduce property tax collections by $35,654 in FY 2010 and by $507,724 over the FY 2010 through FY 2013 financial planning period. Implementation of the proposed legislation is subject to the inclusion of its fiscal effect in an approved budget and financial plan.

Background

The proposed legislation would amend Chapter 10 of Title 47 of the D.C. Official Code to exempt the property located at 2001 15th Street, NW (Lot 207 in Square 204) from real property taxation from the time of the recordation of a restrictive covenant against the real property. The restrictive covenant is associated with the real property's receipt of federal low income housing tax credits[1] or any other affordable housing preservation program at least partially funded by the District of Columbia that restricts the real property's use to multifamily rental housing for low income households. The property tax exemption would end when the restrictive covenant, which must last a minimum of 40 years, was terminated.

Campbell Heights Apartment complex ("Campbell Heights"), the property covered under the proposed legislation, currently consists of 171 age-restricted senior rental apartments under a project-based Section 8 Housing Assistance Payments (HAP) contract with the US Department

[1] Or other assistance pursuant to section 42 of the D.C. Official Code.

of Housing and Urban Development (HUD). On June 30, 2010, Campbell Heights Residents Association (CHRA) in partnership with JAIR LYNCH Development Partners (JAIR LYNCH) will acquire Campbell Heights from the current owner, Campbell Heights Associates, LP.[2] The new owners plan on maintaining the Section 8 HAP contract with HUD in order to continue to provide senior affordable housing.[3] They also plan on a moderate rehabilitation of the building, which will take approximately six months and will be financed through Tax-Exempt Bond Financing and Low Income Housing Tax Credits (LIHTC). Since most of the rehabilitation will take place in common areas, there will be no need to relocate tenants.

Financial Plan Impact

Funds are not sufficient in the proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation. The proposed legislation would reduce property tax collections by $35,654 in FY 2010 and by $507,724 over the FY 2010 through FY 2013 financial planning period.

The current property owner receives a real property tax exemption under Section 20 of Title 47 of the D.C. Official Code,[4] which allows it to make a payment in lieu of taxes (PILOT) in an amount equal to 5 percent of the gross income derived from the operation of the building. Given that CHRA plans to continue to provide affordable housing, it is assumed that they would also qualify for this tax abatement.[5] Thus, the value of the tax abatement is the foregone PILOT payments.

Estimated Fiscal Impact: FY 2010 – FY 2013					
	FY 2010[a]	**FY 2011[c]**	**FY 2012[c]**	**FY 2013[c]**	**Four Year Total**
Foregone PILOT Payment	($35,654)[b]	($149,745)	($157,232)	($165,094)	($507,724)

[a] Gross operating income for FY 2010 was provided by JAIR LYNCH and was derived from the gross rents based on the 2008 HAP extension. It is assumed that gross operating income consists solely of rents, although there is a negligible amount of income that comes from laundry, late fees, and rental of roof space for a cell phone antenna.
[b] Assumes tax abatement would not begin until June 30, 2010, which is the closing date for the sale of the property. Therefore the amount of taxes abated, and the fiscal impact, in FY2010 is only 25% of the total PILOT payment due in FY2010.
[c] Assumes gross operating income increases by 5 percent each year. This is based off the average annualized increases in the fair market rents for the Washington HUD Metro Area since 2000.

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[2] On August 5, 2009, CHRA was given its final right to match a third party contract to purchase the Campbell Heights property under the DC Tenant Opportunity to Purchase Act, which provides registered tenant associations the ability to purchase their rental apartment buildings in the event of a sale. A Purchase and Sale Agreement between CHRA and the Seller was executed on September 24, 2009.
[3] The current HAP contract was renewed for 5 years in September 2008. When it expires in September 2013, CHRA plans on applying for a new 5 year extension. Since the project uses HUD insured financing, the risk of the HAP contract not being renewed is negligible.
[4] See Section 20 (iv)(II) of DC ST § 47-1002.
[5] The tax exemption status provided under DC ST § 47-1002 will be terminated on the closing date of the sale. Therefore, CHRA would need to apply for the tax exemption. But they do not plan on doing so, unless the proposed legislation does not pass.

Additionally, because the real property tax exemption would apply for at least 40 years, the proposed legislation would continue to have a fiscal impact beyond the financial plan period. Between FY 2014 and FY 2049, the proposed legislation is estimated to reduce the property tax collections by an additional $16.6 million, bringing the total reduction in revenues to $17.1 million over the 40-year period.

Estimated Fiscal Impact: FY 2014 – FY 2049	
FY 2014	($173,348)
FY 2015	($182,016)
FY 2016	($191,116)
FY 2017	($200,672)
FY 2018	($210,706)
FY 2019	($221,241)
FY 2020	($232,303)
FY 2021	($243,918)
FY 2022	($256,114)
FY 2023	($268,920)
FY 2024	($282,366)
FY 2025	($296,484)
FY 2026	($311,308)
FY 2027	($326,874)
FY 2028	($343,218)
FY 2029	($360,378)
FY 2030	($378,397)
FY 2031	($397,317)
FY 2032	($417,183)
FY 2033	($438,042)
FY 2034	($459,944)
FY 2035	($482,942)
FY 2036	($507,089)
FY 2037	($532,443)
FY 2038	($559,065)
FY 2039	($587,019)
FY 2040	($616,369)
FY 2041	($647,188)
FY 2042	($679,547)
FY 2043	($713,525)
FY 2044	($749,201)
FY 2045	($786,661)
FY 2046	($825,994)
FY 2047	($867,294)
FY 2048	($910,658)
FY 2049	($956,191)
Total	**($16,613,055)**

Assumes that the gross operating income will increase by 5 percent each year.