

**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: March 4, 2010

SUBJECT: Fiscal Impact Statement: "Global Security and Aerospace Industry
Tax Abatement Act of 2010"

REFERENCE: Bill 18-651

Conclusion

Funds are not sufficient in the FY 2010 through FY 2013 financial plan period to implement the proposed legislation. The total fiscal impact during the FY 2010 through FY 2013 financial plan period is \$9.4 million. The legislation would provide a grant of up to \$5.5 million to assist with relocation expenses and result in a property tax revenue loss of \$1.95 million annually beginning in FY 2012, with a total impact of \$3.9 million in the FY 2010 through FY 2013 financial plan period and \$19.5 million over a ten-year period. The legislation is subject to the inclusion of its fiscal effect in an approved budget and financial plan.

Background

The proposed legislation would allow for an abatement of real property taxes with respect to real property purchased or leased and occupied by a Global Security and Aerospace Company ("Company"). The Mayor must certify to the Office of Tax and Revenue the identity of each Company.

The annual abatement allowed by the legislation would not exceed \$1.95 million and would not be effective until October 1, 2011. The exemption will remain in place for ten years as long as:

1. The real property is located in a High Technology Development Zone or Priority Development Area, and is occupied before March 31, 2012;
2. If the property is leased, the lease is for a period of at least ten years;
3. The Company employs a minimum of 250 employees in the District;
4. The Company enters into an agreement with the Department of Small and Local Business Development;
5. The Company enters into an agreement with the Mayor committing the Company to provide financial, social, cultural, employment, or other benefits to the residents of the District; and
6. If the property is not owned by the Company, the real property owner passes the abatement through to the Company.

The real property tax abatement would result in a revenue loss of \$1.5 million beginning in FY 2012, with an impact of \$3.9 million during the financial plan period, and a total cost of \$19.5 million during the ten-year abatement period.

In addition, the legislation authorizes the Office of the Deputy Mayor for Planning and Economic Development (DMPED) to issue up to \$5.5 million in grants to the Company to assist with expenses (as defined in the legislation) related to relocating to the District. The authorization for up to \$5.5 million in grants is subject to appropriation.

Finally, the legislation amends the definition of High Technology Development Zones to include all Priority Development Areas and Lot 102 in Square 495, and Lot 36 in Square 494.

In addition to the real property tax abatement and the relocation grant, a Global Security and Aerospace Company may also qualify for tax benefits provided under D.C. Official Code § 47-1817.01 *et seq.* ("Net 2000"). These benefits include a reduction in the corporate taxable income rate from 9.975% to 6% (or an abatement of the tax for five years from when the Company commences business in a high technology development zone) and a series of corporate income tax credits related to employees, including:

- Up to \$1,000,000 for the relocation of employees to the District;
- \$5,000 per year per qualified employee for wages paid during the first 24 months of employment;
- Up to \$20,000 per Qualified Disadvantaged Employee for retraining costs during the first 18 months of employment; and
- \$15,000 per year per Qualified Disadvantaged Employee for wages paid during the first 24 months of employment.

Because we have not had the opportunity to review any financial statements for prospective Global Security and Aerospace Companies, we cannot estimate the total benefit that each company may receive from the Net 2000 benefits.

Financial Plan Impact

Funds are not sufficient in the FY 2010 through FY 2013 financial plan period to implement the proposed legislation. The total fiscal impact during the FY 2010 through FY 2013 financial plan period is \$9.4 million. The legislation would provide a grant of up to \$5.5 million to assist with relocation expenses and result in a property tax revenue loss of \$1.95 million annually beginning in FY 2012, with a total impact of \$3.9 million in the FY 2010 through FY 2013 financial plan period and \$19.5 million over a ten-year period. The legislation is subject to the inclusion of its fiscal effect in an approved budget and financial plan.

	FY 2010	FY 2011	FY 2012	FY 2013	Total
Real Property Tax Abatement	\$0	\$0	\$1,950,000	\$1,950,000	\$3,900,000
Grant – unknown distribution date	TBD	TBD	TBD	TBD	\$5,500,000
					\$9,400,000