

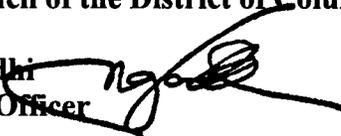
**Government of the District of Columbia
Office of the Chief Financial Officer**



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: June 4, 2010

SUBJECT: Fiscal Impact Statement – “King Towers Residential Housing Real Property Tax Exemption Act of 2010”

REFERENCE: Bill Number 18-749 – As Introduced

Conclusion

Funds are not sufficient in the FY 2010 through FY 2013 budget and financial plan to implement the provisions of the proposed legislation. The proposed legislation would reduce District revenues by \$27,500 in FY 2010 and by \$192,500 in the FY 2010 through FY 2013 financial plan period.

Background

The proposed legislation would provide real property tax abatement to King Towers residential housing rental project located on Lot 49, Square 281, so long as the real property continues to be owned by King Housing, LLC, or by an entity controlled, directly or indirectly, by King Housing, LLC, or continue to be under applicable use restrictions during a federal low-income housing tax credit compliance period or any other federal program governing income and use restrictions at the property, and is not used for commercial purposes.

King Towers is a 129-unit residential rental building located at 1220 12th Street NW in Ward 2, which houses mostly very low-income families.¹ Since 2000, the property has been exempted from real property taxes.² The planned rehabilitation of the 38-year-old building will include

¹ Of the 129 families living at King Towers, 126 or 98 percent are deemed to be Low or Very Low Income per U.S. Department of Housing and Urban Development guidelines. One third of the families residing at King Towers make less than \$30,000 annually.

² D.C. Code § 47-1002(20)(A)(i)

improvements such as a solar power roof, new kitchens, baths and common areas, new windows, new roof and insulation and multiple community spaces. Two new Out of School Time facilities will serve children between the ages of 5 to 13 by offering reading, math and computer instruction to the children who live at King Towers.

To take advantage of the Federal Low Income Housing Tax Credit (LIHTC) program, the property, currently owned by King Towers, Inc., a non-profit entity, would be transferred to the for-profit King Housing, LLC. The managing member will still be a non-profit entity.

The rehabilitation at King Towers is being financed through the New Issuance Bond Program (NIBP)³ which is administered by DC Housing Finance Agency (DCHFA). King Towers has been allocated a \$10.6 million award by DCHFA with a June 30 closing deadline. King Towers will also take advantage of a Renewable Grant in Lieu of Tax Credits allowed under the American Recovery and Reinvestment Tax Act of 2009. The renewable energy projects at King would need to be placed in service by December 31, 2010 to be eligible for this program.

Financial Plan Impact

Funds are not sufficient in the FY 2010 through FY 2013 budget and financial plan to implement the provisions of the proposed legislation.

The property is currently exempted from real property taxation, because it is a multifamily rental housing rented to low and moderate income persons, and it receives interest reduction payments made under § 236 of the National Housing Act (12 U.S.C. § 1715z-1). King Housing, LLC would continue to provide affordable housing, and could likely qualify for the similar exemption (although it has to reapply). But because King Housing, LLC is a for-profit owner, under D.C. Code § 47-1002(20)(A)(vi)(II), it would have to make a payment in lieu of taxes in an amount equal to 5 percent of the gross income derived from the operation of its buildings. The proposed legislation would waive the requirement for such a payment.

The annual income of the King Housing, Inc. is estimated at \$1.1 million. Thus the fiscal impact of the proposed legislation is \$27,500 in FY 2010, and \$192,500 in the FY 2010 through FY 2014 financial plan period. The legislation shall become applicable upon the inclusion of its fiscal effect in an approved budget and financial plan.

Estimated Fiscal Impact					
	FY 2010^a	FY 2011	FY 2012	FY 2013	Four Year Total
Gross income	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	
PILOT Payment Forgone	\$27,500	\$55,000	\$55,000	\$55,000	\$192,500

^aThe legislation is assumed to be in place by September 2010. Thus, the FY 2010 impact is only for the second half billing.

³ NIBP is a housing stabilization initiative implemented through the Housing and Economic Recovery Act (HERA). DCHFA was awarded \$193 million through the HERA to be used for various housing projects.