


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



Jeffrey S. DeWitt  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Phil Mendelson  
Chairman, Council of the District of Columbia

**FROM:** Jeffrey S. DeWitt  
Chief Financial Officer 

**DATE:** May 16, 2017

**SUBJECT:** Fiscal Impact Statement – Inclusionary Zoning Consistency Amendment Act of 2017

**REFERENCE:** Bill 22-104, Draft Committee Print provided to the Office of Revenue Analysis on May 15, 2017

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**Conclusion**

Funds are sufficient in the fiscal year 2017 budget and proposed fiscal year 2018 through 2021 budget and financial plan to implement the bill.

**Background**

In October 2016, the District’s Zoning Commission adopted amendments to the District’s zoning regulations regarding the District’s inclusionary zoning (IZ) requirements<sup>1</sup>. The bill will conform the District’s IZ administration and enforcement law<sup>2</sup> to the regulations. The District’s IZ requires a certain percentage<sup>3</sup> of newly-constructed, private residential developments be rented or sold to households earning less than a specified level of income, and the zoning also requires that the rental or sale price be restricted to a level affordable to these households.<sup>4</sup> The original IZ regulations were promulgated in 2009 and, since 2010, have resulted in approximately 1,000 IZ units constructed or under construction throughout the District.

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<sup>1</sup> By amending Subtitles B, C, and I of Title 11 (Zoning Regulations of 2016) of the District of Columbia Municipal Regulations (DCMR), Order 04-33G, dated October 17, 2016

<sup>2</sup> By amending The Inclusionary Zoning Implementation Amendment Act of 2006

<sup>3</sup> Developments affected by the regulations typically require between 8 and 12% of their residential square footage be set aside for IZ units; developments located in certain zones are exempt from the requirements.

<sup>4</sup> Maximum rents and sales prices are published annually by the Department of Housing and Community Development and are based on housing costs that would equal 30% of the specified AMI level.

The Honorable Phil Mendelson

FIS: "Inclusionary Zoning Consistency Amendment Act of 2017," Draft Committee Print provided to the Office of Revenue Analysis on May 15, 2017.

The Zoning Commission's regulations changed the income restrictions for IZ units and changed the corresponding maximum rents that can be charged, or prices that ownership units may be sold for. Whereas previous regulations required some IZ units to be priced to be affordable to households earning 50% of the Area Median Income<sup>5</sup> (AMI) and others to be priced at 80% AMI affordability, the new regulations apply an affordability level of 60% AMI for all IZ rental units and an affordability level of 80% AMI for all IZ ownership units.

### **Financial Plan Impact**

Funds are sufficient in the fiscal year 2017 budget and proposed fiscal year 2018 through 2021 budget and financial plan to implement the bill.

The new IZ requirements will apply to developments applying for their building permits after June 5, 2017, and therefore will have no impact on District tax revenue from existing buildings or projects currently under construction. The Office of Planning has projected that the new IZ requirements, after taking into account recent regulations<sup>6</sup> lowering required parking construction, may have a small negative impact to values of developable parcels, on average. However, developers and property investors have a range of alternatives for responding to more stringent rental IZ requirements in some zones, including: switching from rental apartments to condominiums (which can achieve a higher value as compared to previous IZ regulations); switching from residential development to commercial development in mixed-use zoned areas; constructing less costly projects; or favoring projects located on less costly land. The new requirements may therefore increase or decrease values of developable land, depending on the type of project planned and the zoning applicable to its location. The net effect of such decisions on land values, taxable assessed values and real property tax revenues cannot be determined at this time.

The new regulations will lower the average rent for IZ rental units constructed in the future. To date, the average of the maximum allowable rents of all IZ rental units equates to a rent affordable to households at 73% AMI. By decreasing the affordability level for all IZ rental units to 60% AMI, average rents for a one-bedroom IZ unit will fall by approximately \$265 per month<sup>7</sup>. For future condominium and single-family, for-sale projects, IZ units will no longer be required to be offered at 50% AMI. The maximum price for for-sale IZ one-bedroom units offered in 2016 was \$113,000 for a 50% AMI unit and \$214,300 for an 80% AMI unit.

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<sup>5</sup> Median Family Income for a household in the Washington Metropolitan Statistical Area as set forth in the periodic calculation provided by the United States Department of Housing and Urban Development

<sup>6</sup> Zoning Commission Order ZR-16

<sup>7</sup> IZ rental rates vary by size of unit.