

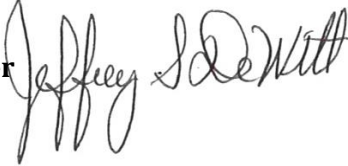
Government of the District of Columbia
Office of the Chief Financial Officer



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: November 29, 2017

SUBJECT: Fiscal Impact Statement - Relieve High Unemployment Tax Incentives Act of 2017

REFERENCE: Bill 22-218, Committee Print as shared with the Office of Revenue Analysis on November 27, 2017

Conclusion

Funds are sufficient in the fiscal year 2018 through fiscal year 2021 budget and financial plan to implement the bill. The bill authorizes the Mayor to approve applications for tax incentives from qualified private businesses, but requires additional authorizing legislation before such incentives may take effect. The Office of the Chief Financial Officer will assess the fiscal impact of requested tax incentives when such additional legislation is introduced.

Background

The bill allows the Mayor to receive and approve applications from qualified companies and qualified film, television and digital media production facilities for a variety of different tax abatements and tax credits. Qualified companies are defined in the bill as for-profit entities that invest a minimum of \$50 million in a building located in a high unemployment area. A high unemployment area is defined as a ward, or a part of a ward, that has an unemployment rate of 7% or more for 3 consecutive months in a year, according to Department of Employment Services (DOES) unemployment statistics¹. Qualified film, television and digital media production facilities do not require a minimum investment but must include at least one studio of at least 7,000 square feet.

¹ Current DOES unemployment statistics do not describe areas smaller than a ward. Additionally, the ward unemployment rates DOES reports monthly rely, in part, on annual American Community Survey population estimates. Ward unemployment rates therefore have a greater margin of error than rates reported for the District as a whole.

The Mayor may approve applications from qualified companies for tax incentives including:

- Real property tax abatements of up to 100 percent of the real property tax otherwise due, for periods of up to 30 years;
- Personal property tax abatements of up to 100 percent of the personal property tax otherwise due, for periods of up to 30 years;
- Employment tax credits² of up to \$3,000 on the wages paid to District residents, per employee per year, for up to 10 consecutive years but limited to \$1.5 million per company; and
- Tax credits³ of up to \$2.50 per square foot to a qualified tenant in the retail or non-retail business, for up to 5 consecutive years.

The Mayor may approve applications for tax incentives for up to three qualified film, television and digital media production facilities containing at least one studio of a minimum of 7,000 square feet, including up to a 10 percent tax credit⁴ on eligible production costs for a qualified film.

The bill specifies that the Mayor shall approve applications if the Mayor determines that the proposed project has a substantial possibility of decreasing the unemployment rate in the high unemployment area. The bill further requires that the Mayor submit legislation to Council that would authorize any approved abatements or credits. Finally, the bill requires the Mayor to annually certify to the Office of Tax and Revenue an approved entity's continued eligibility for a tax abatement or tax credit.

Financial Plan Impact

Funds are sufficient in the fiscal year 2018 through fiscal year 2021 budget and financial plan to implement the bill. The Mayor can approve tax incentive applications, but no abatements or credits would take effect without additional authorizing legislation that must be incorporated into a budget and financial plan. The OCFO will determine the fiscal impact of any proposed tax incentives at the time the Mayor submits the required additional legislation to Council.

Current unemployment statistics indicate that projects in Wards 5, 7, and 8, including real estate developments, would be eligible under the bill to apply for tax abatements and credits. If the District were to experience another recession such as the one experienced in 2008 to 2009, additional areas or Wards of the District would likely qualify.

² The bill does not specify the tax against which such credit may be provided.

³ The bill does not specify the tax against which such credit may be provided.

⁴ The bill does not specify the tax against which such credit may be provided.