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 7, 2018**
SUBJECT:	**Fiscal Impact Statement – Vacancy Increase Reform Amendment Act of 2018**
REFERENCE:	**Bill 22-25, Draft Committee Print received November 5, 2018**

Conclusion

Funds are not sufficient in the fiscal year 2019 through fiscal year 2022 budget and financial plan to implement the bill. The bill is subject to appropriation and will result in a revenue loss totaling $3,324,000 over the four-year budget and financial plan: $0 in fiscal year 2019; $277,000 in fiscal year 2020; $576,000 in fiscal year 2021; and $2,471,000 in fiscal year 2022.

Background

The bill limits the allowable rent increase for a vacant rent-controlled apartment unit to 10 percent.[1] Currently when a rent-controlled unit becomes vacant the landlord can increase the rent by up to 10 percent, or by up to 30 percent if there's an equivalent unit on the property with rent more than 10 percent higher than the vacant unit. The 10 percent limit proposed by the bill will apply regardless of the rent levels of other units on the property.

Financial Plan Impact

Funds are not sufficient in the fiscal year 2019 through fiscal year 2022 budget and financial plan to implement the bill. The bill will result in a revenue loss totaling $3,324,000 over the four-year budget and financial plan: $0 in fiscal year 2019; $277,000 in fiscal year 2020; $576,000 in fiscal year 2021; and $2,471,000 in fiscal year 2022.

The cost of the bill comes from decreased rental income, which will result in decreased revenues from the District's business franchise tax and property tax. We estimate lost rental income across

[1] By amending Section 213 of the Rental Housing Act of 1985, effective July 17, 1985 (D.C. Law 6-10; D.C. Official Code § 42-3502.13).

the District will be around $9 million in fiscal year 2019, and this loss will grow to about $42 million by fiscal year 2022 as more and more units have tenant turnover and therefore are affected by the law. The resulting business franchise tax revenue loss will be $277,000 starting in fiscal year 2020, and this will grow to $899,000 by fiscal year 2022[2]. Real property tax revenue loss will be $1,572,000 starting in fiscal year 2022.[3] The tax revenue losses occur a year or more after the bill is implemented (presumably in early 2019) since there is a lag between earning income and paying property and income taxes owed to the city.

Cost of Bill 22-25, the Vacancy Increase Reform Amendment Act of 2018					
	FY 2019	**FY 2020**	**FY 2021**	**FY 2022**	**Four-year Total**
Business franchise tax revenue loss	$0	$277,000	$576,000	$899,000	$1,752,000
Real property tax revenue loss	$0	$0	$0	$1,572,000	$1,572,000
TOTAL COST	**$0**	**$277,000**	**$576,000**	**$2,471,000**	**$3,324,000**

Table assumptions

- Rental income lost in 2019 due to the bill will not impact business franchise tax payments until fiscal year 2020 and will not impact real property tax payments until fiscal year 2022.
- Twelve percent of the rent-controlled housing stock, or 8,556 units, become vacant each year. We assume a new set of 8,556 units will become vacant each year, adding to the total units affected by the law across the District.
- The bill would reduce vacancy rent increases from an average of 15 percent to 10 percent, resulting in $90 to $100 in monthly rental income lost per unit, per year.
- Only 36 percent of units affected will see lower business franchise tax payments since landlords of the remaining 64 percent of units already pay the minimum tax which cannot decrease further. The business franchise tax rate is 8.25 percent.
- The real property tax rate is 0.85 percent; when calculating the revenue loss, we assume a 5 percent cap rate.

Our estimate is based on 12 percent of the rent-controlled housing stock, or 8,556 units, becoming vacant each year.[4] We assume a new set of 8,556 units will become vacant each year, adding to the total units affected by the law across the District. We also assume that limiting the rent increases for vacant units will reduce the rental income for each unit by $90 to $100 per year.[5]

[2] Assuming tax payments decrease for only 36 percent of affected landlords, since the remaining landlords already pay the minimum tax payment, which cannot be lowered. We assume a business franchise tax rate of 8.25 percent.

[3] Assuming a real property tax rate of 0.85 percent and cap rate of 5 percent.

[4] Based on the turnover rate of rent-controlled housing in New York City published by the New York Independent Budget Office, and the number of rent-controlled units in the District estimated by Peter Tatian and Ashley Williams of the Urban Institute in their report, "A Rent Control Report for the District of Columbia."

[5] Assuming the average rent increase for a vacant unit drops from 15 percent to 10 percent and the average rent for a rent-controlled unit in 2019 is $1,801 per month. This rent estimate is based on data from CoStar.