

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



**Natwar M. Gandhi**  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Kwame R. Brown  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi   
Chief Financial Officer

**DATE:** January 31, 2012

**SUBJECT:** Fiscal Impact Statement – “King Towers Residential Housing Real Property Tax Exemption Clarification Act of 2011”

**REFERENCE:** B19-530, Draft Bill as Shared with the OCFO on December 8, 2011

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**Conclusion**

Funds are not sufficient in the FY 2012 through FY 2015 budget and financial plan to implement the provisions of the bill. Enactment of the bill will reduce tax collections in FY 2012 in the amount of \$648,511. There is no cost in subsequent years.

**Background**

The bill authorizes a one-time exemption from economic interest tax and real property tax assessed by the Office of Tax and Revenue on real property owned by King Towers, LLC. The property is located at 1220 12th Street NW (Lot 49 in Square 281) and is a 129-unit residential apartment building that serves low-income residents.

Until August 2010, the property was owned by a non-profit entity, which was exempt from real property tax and economic interest tax due to the fact that it received a certain type of federal assistance to provide low-income housing. In August of 2010, the non-profit owner transferred the property to a for-profit entity, King Towers, LLC, in order to take advantage of federal Low-income Housing Tax Credits. With this transfer, the property became subject to real property tax and economic interest tax.

The Honorable Kwame R. Brown

FIS: "King Towers Residential Housing Real Property Tax Exemption Clarification Act of 2011," Draft as Shared with the OCFO on December 8, 2011.

The D.C. Council passed, and the Mayor signed emergency and subsequently permanent legislation to provide King Towers, LLC with a real property tax exemption.<sup>1</sup> These pieces of legislation, however, did not authorize an exemption from the economic interest tax; the Office of Tax and Revenue assessed this tax when the property transferred in September 2010.

Additionally, during the 19-day gap between the expiration of the emergency legislation and enactment of the permanent legislation which authorized the real property tax exemption, the property was subject to real property tax.<sup>2</sup> The bill refunds the property taxes paid for this time period, as it was the intent of the permanent legislation enacted in 2010 to allow the property to maintain its tax exempt status despite the ownership change.

### Financial Plan Impact

Funds are not sufficient in the FY 2012 through FY 2015 budget and financial plan to implement the provisions of the bill. Exempting the real property owned by King Towers, LLC from the economic interest and real property taxes assessed will reduce tax collections by \$648,511 in FY 2012. The detailed costs are outlined in the table below.

<b>Estimated Fiscal Impact for B19-530, King Towers Residential Housing Real Property Tax Exemption Clarification Act of 2011, FY 2012 - FY 2015</b>					
	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>Total</b>
Economic Interest Tax Owed	\$553,845	\$0	\$0	\$0	\$553,845
Estimated Interest Owed <sup>1</sup>	\$89,698	\$0	\$0	\$0	\$89,698
Amount of Real Property Tax Exemption <sup>2</sup>	\$4,969	\$0	\$0	\$0	\$4,969
<b>Total Estimated Exemption</b>	<b>\$648,511</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$648,511</b>

<sup>1</sup> As of the most recent tax bill, King Towers owed about \$61,000 in interest on the unpaid economic interest tax. OTR continues to charge interest until the delinquent taxes are paid; therefore, it is assumed interest will accrue through March 1, 2012.

<sup>2</sup> This total includes real property taxes (including interest and penalties) paid by King Towers for the 19-day period in 2010 when the property became subject to the tax. The estimate assumes taxes paid are refunded in FY 2012.

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<sup>1</sup> On June 28, 2010, the Mayor signed into law the King Towers Residential Housing Real Property Tax Exemption Emergency Act of 2010 (D.C. Act 18-453). This act exempted the King Towers residential housing rental project located in Lot 49 on Square 281 from real property tax on an emergency basis. The emergency act expired on September 26, 2010 and the permanent bill did not become law until October 15, 2010 (D.C. Law 18-237; D.C. Official Code 47-4639). As a result, King Towers, LLC was charged real property taxes for the 19-day period between September 26, 2010 and October 15, 2010.

<sup>2</sup> See footnote 1.