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:	**March 13, 2018**
SUBJECT:	**Fiscal Impact Statement – Rental Housing Affordability Re-establishment Amendment Act of 2018**
REFERENCE:	**Bill 22-570, Draft Committee Print sent to the Office of Revenue Analysis on March 1, 2018**

Conclusion

Funds are not sufficient in the fiscal year 2018 through fiscal year 2021 budget and financial plan to implement the bill. The bill will have no cost in fiscal year 2018, but it will reduce District revenues by $10,000 in fiscal year 2019 and $231,000 over the four-year budget and financial plan.

Background

A unit in a rent-controlled building is exempt from rent control while it is occupied by a tenant with a District or federal rent subsidy. During this time the landlord can charge a near-market rate rent for the unit.[1] Once the subsidy expires, increases in the unit's rent are once again bound by rent-control limits, but the initial rent the landlord can charge is based on the near-market rate rent charged to the subsidy-holder.

The bill changes[2] the maximum rent a landlord can charge for a rent-controlled unit once a subsidy expires. The rent will be limited to the rent charged before the subsidy was used, plus any increases allowed under rent control during the period the subsidy was used. If the pre-subsidy rent is not on file with the Rent Administrator at the Department of Housing and Community Development, the rent charged will the be the lowest of: 1) the next oldest rent charged, plus any increases allowed under

[1] Up to 175 percent of the fair market value as determined by the U.S. Department of Housing and Urban Development

[2] By amending Section 209 of the Rental Housing Act of 1985, effective July 17, 1985 (D.C. Law 6-10; D.C. Official Code § 42-3502.09).

rent control; 2) 100 percent of the small area fair market rent for the Washington metropolitan area[3]; or 3) the average rent changed during the last six consecutive months of the subsidy-holder's occupancy.

Financial Plan Impact

Funds are not sufficient in the fiscal year 2018 through fiscal year 2021 budget and financial plan to implement the bill. The bill will have no cost in fiscal year 2018, but it will reduce District revenues by $10,000 in fiscal year 2019 and $231,000 over the four-year budget and financial plan.

The bill will lower the rental income of some units upon expiration of a District or federal rent subsidy. The lowered rental income will result in reduced property tax and business income tax collections for the District.

We estimate approximately 600 apartment units a year will be affected by the bill[4] and that the bill will reduce the average rent for these units from $1,413 a month to $1,119 a month[5] during the first year after the subsidy expires. A portion of this rental income loss will lower property tax assessments and reduce the income on which businesses are taxed.[6]

Once the subsidy for each of the 600 units has expired, and the new rent allowed under the bill has been in effect for a full year, the District will lose about $180,000 in property tax revenue[7] and $35,000 in business franchise tax revenue[8] a year for this group of units—though the losses will be delayed since tax payments for the current year are based on previous years' income and property valuations.[9] Costs will add up each year as subsidies expire for a new set of 600 units.

The table below shows the revenue losses for the fiscal year 2018 through fiscal year 2021 budget and financial plan.

[3] Established by the U.S. Department of Housing and Urban Development pursuant to 24 CFR 888.113.
[4] The number of units affected is our estimate of the number of units in rent-controlled buildings occupied by people with District rapid rehousing subsidies that expire each year, excluding units refilled with another rapid rehousing subsidy holder. We assume that other types of subsidies are highly unlikely to expire during the budget and financial plan period and therefore units with other subsidies in use will not be affected by the bill.
[5] We assume rents of subsidized units are 30 percent more expensive than those of rent-controlled units.
[6] We assume 20 percent of gross rental income loss will be profit loss that leads to lower business franchise tax revenue and 50 percent of gross rental income loss will lower property values leading to loss of property taxes. We assume a 5 percent cap rate for the affected properties.
[7] Assuming a 5 percent cap rate. The property tax is 0.85 percent of the property's assessed value.
[8] The business franchise tax is 8.25 percent.
[9] Changes in rental income that occur in fiscal year 2018 will first affect business franchise tax payments in fiscal year 2019, while changes in a property's value that occurs in fiscal year 2018 will first affect property tax payments in fiscal year 2021.

Revenue Loss from the Rental Housing Affordability Re-establishment Act of 2018					
	FY 2018	**FY 2019**	**FY 2020**	**FY 2021**	**Four-Year Total**
Property tax revenue loss	$0	$0	$0	$105,000	$105,000
Business franchise tax revenue loss	$0	$10,000	$39,000	$77,000	$126,000
TOTAL REVENUE LOSS	**$0**	**$10,000**	**$39,000**	**$182,000**	**$231,000**

Table Assumptions:

- 602 units a year will be affected by the legislation
- The average rent of these units will decrease from $1,413 to $1,119 a month once the bill is implemented. Rents will increase on average 3 percent a year.
- 20 percent of gross rental income loss will be profit loss that leads to lower business franchise tax revenue; 50 percent of gross rental income loss will factor into lower property values leading to loss of property taxes (we assume a 5 percent cap rate).
- The business franchise tax rate is 8.25 percent and property tax rate is 0.85 percent.
- Costs ramp up over time for several reasons: people's subsidies are expiring throughout the year; the pool of units affected by the bill grows each year as new subsidies expire; profit losses do not affect the business franchise tax payments until fiscal year 2019 and the property tax payments until fiscal year 2021.
- Bill goes into effect in June 2018.