

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



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

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

FROM: Natwar M. Gandhi 
Chief Financial Officer

DATE: October 30, 2013

SUBJECT: Fiscal Impact Statement – “Historic Music Cultural Institutions
Expansion Tax Abatement Act of 2013”

REFERENCE: Bill 20-70, Draft Committee Print

Conclusion

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill. The bill is estimated to reduce District’s tax revenues by approximately \$200,000 in FY 2014 and \$800,000 over the four year financial plan period.

Background

The bill will provide “Historic Music Cultural Institutions” (“music venue”) with a 10-year real property tax exemption and an exemption from deed transfer and recordation taxes so long as the music venue has been: 1) operating in the District as a commercial music venue on a continual basis for a minimum of 45 years; 2) hosts a minimum of 100 live musical performances in the District annually; and 3) purchases or leases a new property to physically expand its current operations.

To claim the real property tax exemptions for “expanded use,” the music venue must purchase or lease real property within one year prior to, or five years after, the effective date of this Act. If the music venue purchases a property or properties within this time period, the music venue would also be exempted from deed recordation and transfer taxes.

The tax exemptions will apply to areas immediately adjacent to, or included within, the music venue, as well as areas used by the music venue for food and beverage preparation, supporting office space, and space used by affiliated nonprofit music-oriented cultural organizations.

The bill also forgives any real property taxes, penalties and interest assessed by the District within the five years prior to the Act if the property is to be purchased by a music venue that qualifies under the proposed bill.

Finally, the bill caps the annual abatement amount at \$200,000 and also caps the total value that can be claimed over the 10-year period at \$2 million.¹

Financial Plan Impact

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill. The estimated revenue reduction as a result of this legislation is estimated to be approximately \$200,000 in FY 2014 and \$800,000 over the four year financial plan period.

Without knowing the complete universe of music venues that could qualify for this exemption or the specifics of their expansion plans, it is difficult to estimate the expected fiscal impact for a given year. The Office of Revenue Analysis (ORA) was able to identify one music venue in the District that may qualify for this exemption. There may be others; however, it is unlikely that there would be more than one or two given the very specific eligibility criteria.

For illustrative purposes, ORA estimated the potential cost of a music venue that sells its current location valued at \$1 million to purchase a larger property valued at \$3 million. Under this scenario, the estimated fiscal impact in year one would be approximately \$107,500 and approximately \$265,000 over a four year period.² The costs would be highest in the first year, as the music venue would receive an exemption on the transfer tax on the sale of its old site and an exemption from the deed recordation tax on the purchase of its new site in addition to the real property tax exemption. The average value of the real property tax exemption over the four year period is approximately \$51,000 annually. This example, however, does not take into account any back taxes that may have been assessed by the District on the property that is to be purchased or leased by the music venue. The bill allows forgiveness of real property taxes, penalties and interest within 5 five years of the effective date of the Act. It also assumes there is only one qualifying entity.

Therefore, ORA assumes the annual cap of \$200,000 is reached each year, as there may be more than one music venue that qualifies, an entity may also claim a refund on back taxes due, and/or the expansion plans are more costly to the District than the example provided.

The bill will continue to have a fiscal impact outside the financial planning period. Given the 10-year, \$2 million allowances, District's real property taxes could be reduced by an additional \$200,000 per year through 2023.

¹ However, the bill is silent on how the abatement would be allocated to different taxpayers should there be multiple applicants for the abatement.

² This example assumes the music venue would receive an exemption on the transfer tax due on the sale of its existing property and an exemption on the recordation tax and transfer tax due on the purchase of its new property.