

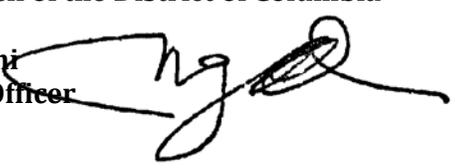
Government of the District of Columbia
Office of the Chief Financial Officer



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: June 24, 2013

SUBJECT: Fiscal Impact Statement – “Spring Place Real Property Limited Tax Abatement Assistance Act of 2013”

REFERENCE: Bill 20-238, As Introduced

Conclusion

Funds are not sufficient in the FY 2013 budget and the proposed FY 2014 through FY 2017 budget and financial plan to implement the bill. The proposed tax exemptions are estimated to reduce local fund revenue by \$406,094 in FY 2013, \$22,959 in FY 2014 and \$626,174 over the proposed FY 2014 through FY 2017 budget and financial plan.

Background

The bill exempts real property Lots 1 and 803 in Square 3186 and Lots 52 and 822 in Square 3185 from taxes once it is transferred to Takoma Spring Place, LLC (“developer”). The real property tax exemption will continue for a period of forty years or until the property no longer provides 120 units of affordable rental units. The value of the real property tax exemption is capped at \$220,000 annually once the development project is completed. The bill also exempts the property from recordation taxes upon conveyance of the property to the developer.

The developer plans to construct a mixed-income rental complex located in the Takoma Park neighborhood that will include 120 rental units affordable for residents making 60 percent or less of the area median income (AMI). The developer plans to take advantage of federal Low-income Housing Tax Credits (LIHTC) to help finance the construction; however, because the developer is a for-profit entity, the developer does not qualify for a tax exemption under current law.¹ Construction of the project is expected to commence in August 2013 and to conclude in November 2014.

¹ D.C. Official Code § 47-1002.

Financial Plan Impact

Funds not are sufficient in the FY 2013 budget and the proposed FY 2014 through FY 2017 budget and financial plan to implement the bill. The proposed tax exemptions are estimated to cost approximately \$406,094 in FY 2013 and \$22,959 in FY 2014 and \$626,174 over the proposed FY 2014 through FY 2017 budget and financial plan.

The properties are expected to transfer to the developer prior to August 2013, the month construction is scheduled to begin. The tax on the recordation of the property transfer and mortgage lien is estimated to be \$402,277² and is expected to be claimed in FY 2013. The real property tax is expected to begin in August 2013. The value of the real property tax exemption is \$3,817 in FY 2013, and \$22,959 in FY 2014 and \$626,174 over the FY 2014 through FY 2017 budget and financial plan period. The costs are detailed in the table below.

Estimated Fiscal Impact of Bill 20-238, Spring Place Real Property Tax Limited Tax Abatement Act of 2013, FY 2013 - FY 2017						
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Four Year Total
Real property tax exemption	\$3,817	\$22,959	\$210,126	\$194,926	\$198,163	\$626,174
Deed recordation tax exemption	\$402,277	\$0	\$0	\$0	\$0	\$0
Total Negative Fiscal Impact	\$406,094	\$22,959	\$210,126	\$194,926	\$198,163	\$626,174

Table Notes:

1. Properties are assumed to transfer by July 2013; therefore recordation tax exemption is claimed in FY 2013.
2. Project construction is scheduled to begin August 2013 and delivery is scheduled for November 2014.
3. Assessed values in FY 2013 and FY 2014 are provided by the Office of Tax and Revenue. Property value in FY 2015 is based on the construction value (*i.e.*, cost approach) and in subsequent years is based on expected the net operating income and a cap rate of 6.1 percent. The assumed cap rate is based on an average for the similar properties in the surrounding area. The expected NOI was provided by the developer, and the cap rates were provided by the Office of Tax and Revenue.
4. Assumes the real property tax exemption begins August 2013.

² The total assessed value of the properties is \$2.7 million and the first mortgage is \$25.0 million. The District's recordation tax rate is 1.45 percent of the amount of consideration given for the property, including cash, property other than cash, mortgages, liens and security interest in non-residential property. D.C. Tax Facts 2012, http://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/11_taxfacts_fy_2012_online_version.pdf