

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



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer 

DATE: September 22, 2009

SUBJECT: Fiscal Impact Statement: "Real Property Tax Reform Classification Amendment Act of 2009"

REFERENCE: Draft Amendment Shared with OCFO on September 18, 2009 – No Bill Number Available

Conclusion

Funds are sufficient in the proposed FY 2010 through FY 2013 budget and financial plan to implement the provisions of the proposed legislation.

Background

The proposed legislation would amend the definitions of Class 1, Class 2 and Class 3 Property; create a Class 4 Property; reduce the tax rate for Class 3 Property from \$10 per \$100 of assessed value to \$5 per \$100 of assessed value; create a tax rate for Class 4 Property of \$10 per \$100 of assessed value; require that the Department of Consumer and Regulatory Affairs (DCRA) transmit a list of Class 4 Property to the Office of Tax and Revenue (OTR); authorize OTR to request that DCRA inspect a real property to ensure it is Class 4; and amend the Vacant Property Maintenance Standard¹ to require that exterior walls be free of graffiti in order to be considered adequately maintained.

The table below shows the current and the proposed definitions for Class 1, 2, 3 and 4 Property.

¹ See D.C. Official Code § 42-3131.12.

Property Type	Definition Under Current Law	Definition Under Proposed Amendment
Class 1	Residential real property that is improved and used exclusively for nontransient dwelling purposes	Residential real property that is <i>occupied</i> , improved and used exclusively for nontransient dwelling purposes
Class 2	Improved commercial property	All real property which is not Class 1, Class 3 or Class 4 Property
Class 3	Real property which cannot be classified as Class 1 or Class 2 Property	All real property which is unimproved, and all improved real property that is unoccupied and which is also not classified as blighted property [†]
Class 4	None	All improved real property which is classified as blighted property ^a

^a This includes both vacant lots and vacant buildings.

^b Blighted property is defined as vacant real property that, after opportunity to abate, does not comply with any requirement of the Vacant Building Maintenance Standard (§ 42-3131.12) would be classified as blighted property.

Financial Plan Impact

Funds are sufficient in the proposed FY 2010 through FY 2013 budget and financial plan to implement the provisions of the proposed legislation.

Changing the definitions of Class 1 and Class 2 Property would not have a fiscal impact, as it would not lead to any reclassification of property.

Reducing the Class 3 tax rate to \$5 per \$100 of assessed property value would reduce real property collections by \$11.3 million in FY 2010 and by \$42.2 million for the FY 2010 through FY 2013 financial plan period. However, this rate reduction is already part of the Fiscal Year 2010 Budget Support Act of 2009 (Subtitle (VII)(I)- Class 3 Real Property Tax Rate Act of 2009) and its impact has already been incorporated in the proposed FY 2010 through FY 2013 budget and financial plan.

Fiscal Impact of Class 3 Real Property Tax Rate Reduction Estimated Reduction in Revenue Collections (In millions of \$)					
	FY 2010	FY 2011	FY 2012	FY 2013	Four Year Total
Change in Class 3 Property Tax Revenues	(\$11.3)	(\$10.8)	(\$10.3)	(\$9.8)	(\$42.20)

Changing the definition of Class 3 Property and creating a Class 4 Property would have a net positive fiscal impact *since the above Class 3 Property tax revenue reductions have already been incorporated into the baseline*. Class 3 Property tax collections would decline as blighted property would now be considered Class 4, but this blighted property would now be taxed at the higher new Class 4 rate. The fiscal impact would be \$144,470 in FY 2010 and \$676,252 over the FY 2010 through FY 2013 period.

Fiscal Impact of Creation of Class 4 Property Estimated Increase in Revenue Collections					
	FY 2010	FY 2011	FY 2012	FY 2013	Four Year Total
Fiscal Impact of Creating Class IV – Additional revenues	\$194,470	\$185,866	\$177,261	\$168,656	\$726,252
Administrative costs ^a	(\$50,000)				(\$50,000)
Net Fiscal Impact	\$144,470	\$185,866	\$177,261	\$168,656	\$676,252

^a Costs for OTR to program the computers with the new Class 4 Property classification. This is estimated to require 6 people months and have a one-time cost of \$50,000 in FY 2010.