GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Linda W. Cropp** **Chairman, Council of the District of Columbia**
THROUGH:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	**June 8, 2001**
SUBJECT:	**Fiscal Impact Statement: "Abandoned Property Rehabilitation Incentive Act of 2001"**
REFERENCE:	**Bill Number 14-177 as Introduced**

Conclusion

Funds are not sufficient in the FY 2002 through FY 2005 budget and financial plan to implement the proposed legislation. **The proposed legislation will result in approximately $600,000 in foregone property tax revenue for the District in FY 2002 through FY 2005.** Additional staff and resources, the costs of which are indeterminate at this time, will be required to implement the proposed legislation.

Anti-deficiency laws, 31USCA § 1341 (2000), prohibit District officers and employees from exceeding agency appropriations in any fiscal year. Should the Mayor and the Council of the District of Columbia determine that funding is available to absorb the additional costs in FY 2002, then the net fiscal impact would be zero. For subsequent years beginning in FY 2003, the additional expenditures need to be included as budgeted expenditures.

Background

The proposed legislation allows District of Columbia residents to purchase abandoned property identified by the Mayor or the Department of Housing and Community Development, and to be exempt from penalties and interest that have accrued on the property. The legislation only applies to abandoned single family homes and duplex housing. Further, those purchasing these properties will pay 50 percent of the existing tax lien on the property, which may be paid in installments. The new owner will be responsible for paying all taxes and fees associated with the property from the date of settlement forward.

The proposed legislation requires property acquired in this manner to be fully rehabilitated and occupied by the owner within six months. Owners are required to live in the property for at least one year, to allow periodic inspection of the property by the District government during the six-month rehabilitation period, and to maintain fire and extended insurance coverage for the property.

Financial Plan Impact

The legislation does not specify the process by which properties will become available for sale. For the purposes of this fiscal impact statement, it is assumed that the affected properties are those on which taxes are owed and that have been presented at the District's tax sale at least twice. It is assumed that approximately 100 properties will become available each year. The average value of each property is estimated at approximately $50,000, due to the dilapidated condition of abandoned properties, making the annual tax liability on these properties approximately $480 per year. This analysis assumes that each of the abandoned properties in question has an accumulated tax lien of approximately three years. Therefore, each property will have an average tax lien of approximately $1,440. For 100 abandoned properties each year, the District will forego approximately $150,000 in additional property tax revenue in FY 2002 because overdue property taxes are included in the District's revenue estimates. If 50 percent of the existing lien is eliminated, the effect is to reduce the District's property tax revenue. For FY 2002 through FY 2005, the District will forego additional property tax revenue of approximately $600,000.

This analysis assumes that the abandoned properties affected by this legislation are only those with tax liens that have not been purchased at the District's tax sale. If the proposed legislation is intended to include all abandoned properties, then the legislation provides a disincentive for investors who have, or may seek to, purchase tax liens at the District's tax sale. As written, the proposed legislation will cause the purchasers to lose 50 percent of their investment and any interest they hoped to gain as the lienholders. Therefore, the District could lose revenue should investors choose to not participate in the tax sale.

There are administrative requirements associated with the proposed legislation. The costs of these requirements and the agencies responsible for implementation are indeterminate at this time.