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**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	**January 7, 2002**
SUBJECT:	**Fiscal Impact Statement: "Housing Act of 2001" (Revised)**
REFERENCE:	**Bill Number 14-183 as Amended**

Conclusion

Funds are not sufficient in the FY 2002 through FY 2005 budget and financial plan. Additional staff and resources will be required to implement the proposed legislation. **The proposed legislation will result in additional unbudgeted costs and foregone tax revenue totaling approximately \$1.50 million in FY 2002 and \$78.0 million in the FY 2002 through FY 2005 budget and financial plan. In addition, there are complex administrative costs that are expected to be many millions of dollars and that cannot be quantified. It may not be possible to administer certain parts of the bill in a manner that withstands audit scrutiny.**

This bill is likely to attract new residents for affordable housing, generating both additional revenue and additional expenditures. Whether new revenues will meet or exceed new expenditures will depend on the composition of households. Families with children in the public schools tend to add to expenditures in excess of revenue; single working individuals have the opposite effect. One analysis[1] estimates \$14.8 million in new tax revenue across the next 10 years; this could happen if, for example, the program adds 120 new households per year evenly divided between incomes of \$25,000 and \$50,000 and between singles and families. If all households are \$50,000 singles, this yields about \$23 million in 10 years, with comparatively little expenditure required. If all households are \$25,000 families, about \$8 million will be generated, with substantially

[1] "Financial Analysis of the Housing Preservation, Rehabilitation, and Production Omnibus Amendment Act of 2001," Bay Area Economics, October 2001.

more than $8 million in expenditures required. Because of the complex uncertainty about new revenues and expenditures, these are omitted from the summary fiscal impact table that follows.

Summary

The purpose of this legislation is to improve housing opportunities for low and moderate income District residents. The legislation would devote District resources of at least $78.0 million over the next four years to improve housing prospects. All of the money would go to various housing production programs. None would be used for rent support programs such as housing voucher programs, which national studies have indicated are frequently more cost-effective than production programs. A little more than half of the money, $40.20 million, is taken from general fund revenue and placed in "O" type revenue accounts dedicated to housing; it is provided as direct expenditures. The rest, $37.8 million, would take the form of tax expenditures – subsidies provided to housing through tax reductions. Property tax receipts would be reduced by more than $15 million over the four-year period as a part of these subsidies.

Summary Impact to the Financial Plan ($ in millions)						
Item	**Description**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
Direct Revenue Impacts						
Title I	Due Process Demolition	$ 0.00	$ 0.00	$ 0.00	$ 0.00	**$ 0.00**
Title II	HUD Sec. 8 Conversion	0.00	1.00	1.00	1.00	**3.00**
Title III	Historic Housing Tax Credit	0.00	1.25	1.25	1.25	**3.75**
Title IV	Low-Income, Long Term Prot.	0.00	1.40	1.40	1.40	**4.20**
Title V	Housing Production Trust Fund	0.00	12.60	12.00	11.60	**36.20**
Title VI	New Residential Tax Abatement	0.50	1.00	3.00	7.00	**11.50**
Title VII	Tax Abatement Homeowners EZ	0.00	1.11	1.55	2.30	**4.96**
Title VIII	Mod. to Homestead Program	1.00	1.00	1.00	1.00	**4.00**
Title IX	Acquisition & Disposal					
Title X	Employer-Assisted Home Purchases	0.00	2.24	4.46	3.69	**10.39**
Title XI	Homeownership Counseling	0.00	0.00	0.00	0.00	**0.00**
Direct Expenditure Impacts						
	Expenditures for Administration	N/A	N/A	N/A	N/A	**N/A**
	Net Annual Impact	$ 1.50	$ 21.60	$ 25.66	$ 29.24	**$ 78.00**

N/A – Not available, but more than zero.

Administrative Burden is Large and Costly

The administrative burden is large with significant direct budget cost and, indirectly, competition within OTR for resources needed to maintain the strength of income tax collections. The possibility of errors is high, as is the likelihood of resentment by taxpayers that do not receive the credits. Some erosion of voluntary compliance is likely.

An example of the administrative complexity follows.

> Some proposed credits are given to residential property owners at certain income levels, sometimes with an additional incentive offered via the individual income or the business franchise taxes. In other cases the incentive is offered to property developer/owners who provide housing to households within certain income ranges. The income cut-off levels come from an index that is revised yearly; therefore, it is difficult for all parties (government, business owners and tenants) to anticipate future credits.
>
> Under the bill, real property tax assessors must know both the <u>owners</u> of property and the names, incomes, household size, and other characteristics of <u>renters</u> of residential property. The data must be certified and maintained over time. In other sections of the bill, assessors must compare certified income data and the certified length of occupancy of residents with facts about housing renovation (including the degree of improvement to the exterior of a building) before knowing which formula to use in calculating a tax bill.

Even small amounts of complexity in a tax system are costly. The District's comparatively simple current real property tax is difficult and costly to administer. OTR estimates that administering the homestead provision resulted in a revenue loss of $13 million in FY1998-2000. This occurred when assessors only need to determine who owns a piece of property and, with the homestead credit, where the owner lives. This simple requirement has been administered via periodic audits of taxpayers rather than annual verifications. A November 2001 report by the D.C. Auditor also finds that administering the current homestead provision is complex and costly. Using an additional criterion that the owner must have an application on file to qualify, the D.C. Auditor estimates a revenue loss of $44.7 million in FY 1998 through FY 2000. In either case, it is apparent that even our current real property tax system is difficult and costly to administer.

Impacts of Tax Incentives

Tax incentives are not entirely free to the favored taxpayers and the federal government gains revenue from incentives offered by D.C. Any household receiving the advantage of an incentive and itemizing deductions for federal tax purposes will incur an additional federal tax liability in the following tax year.

The long-term budget impact of new population is an issue that cities and communities, large and small, must frequently address. If successful, Bill 14-183 will add households and residents to the District of Columbia, a central goal of D.C. policy makers. The simple fact of attracting new residents means that policy makers must consider the budgetary consequences of added public services, as well as the benefits of new revenues.

> Middle or lower-income families with children in public schools will cost the District significantly more in expenditures than they yield in revenue. Four new single wage earners are needed to balance the costs of one new 3-person household with 2 children and one earner, according to a recent study. One two-earner couple with no children brings in enough extra revenue to offset the extra cost of 2 households consisting of one-earner and one-child. (Rivlin and O'Cleireacain, "Envisioning a Future Washington," The Brookings Institution, June 2001)

These calculations are BEFORE any tax incentive for location is figured in. With the tax incentives in the legislation, it may take twice as many or more of the "revenue producing" households for each family with children in the public schools.

BEFORE and AFTER TAX INCENTIVES

<table>
<tr><td>Example 1</td><td></td></tr>
<tr><td><u>Single Earner</u> generates about $4,300 more revenue than D.C. expenditures.</td><td><u>One-Earner, two-children household</u> generates about $16,580 more D.C. expenditures than revenue.</td></tr>
<tr><td colspan="2">BEFORE INCENTIVES: Revenue from 4 single-earners approximately covers expenditure needs for 1 one-earner, 2 child household.</td></tr>
<tr><td colspan="2">WITH INCENTIVES: More than 4 new single earners are needed to cover expenditures for 1 new one-earner, 2 child household.</td></tr>
<tr><td colspan="2">Example 2</td></tr>
<tr><td><u>Two-Earner Couple</u> with no children generates about $13,000 more revenue than D.C. expenditures.</td><td><u>One-earner, one child household</u> generates about $6,300 more D.C. expenditures than revenue.</td></tr>
<tr><td colspan="2">BEFORE INCENTIVES: Revenue from 1 two-earner couple approximately covers expenditure needs for 2 one-earner, one-child households.</td></tr>
<tr><td colspan="2">WITH INCENTIVES: Revenue from 1 two-earner couple covers expenditure needs for fewer than 2 one-earner, one-child households.</td></tr>
</table>

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.

ATTACHMENT

Fiscal Impact Analysis by Title and Provision

The purpose and the impact of each title within the proposed legislation are summarized here and in the following pages.

Title I – Due Process Demolition Act of 2001

Background

The proposed legislation allows the Department of Consumer and Regulatory Affairs (DCRA) to impose an accelerated process for the demolition or enclosure of deteriorated structures that constitute a threat to the public health, safety and welfare of the neighborhood in which they are located. Following a feasibility analysis and historic determination of a deteriorated structure, DCRA may post notice of intent to address the structure. In addressing the property, the District could demolish or enclose the deteriorated property. Within 180 days of the completion of the demolition or enclosure, the proposed legislation allows DCRA to determine the costs and to place a tax lien on the property.

Any taxes assessed as a result of the proposed legislation may be paid without interest within 60 days. After 60 days interest will accrue at 18 percent per annum. After one year of non-payment, the District may sell the property to recover the outstanding real property taxes and liens associated with the property. If the property is sold to a low-income household or to a non-profit entity that provides housing opportunities to low-income households, then the amount of any taxes owed on the property may be decreased by 50 percent and the full amount of any fees and penalties may be forgiven.

Financial Plan Impact

DCRA will not require additional staff or resources to implement the provisions of the proposed legislation. The District's Capital Improvement Plan dedicates $17.2 million for the demolition or enclosure of deteriorated structures; $8.6 million in both FY 2002 and FY 2003. Capital funds are non-lapsing.

In FY 2000, DCRA expended approximately $3 million to address approximately 500 deteriorating properties. The cost of addressing a property varies depending on whether DCRA encloses the property or demolishes the property. The average cost of demolition is $17,500, and the average cost of barricading or enclosing a property is $1,900. Funds appropriated in the District's Capital Improvement Plan are sufficient for DCRA to perform either the demolition or enclosure activities.

The tax that the proposed legislation permits to be levied is intended for the District to recover costs incurred when addressing the properties at issue. The lien amounts are set to equal the costs of demolishing or enclosing the structure, and include a small administrative fee.

DCRA reports that the lien repayment rate is typically low. Historically, at least 99 percent of these property owners do not pay on their liens within 60 days. On average, only 10 percent of the owners ever pay the liens in full; FY 2000 collections were $375,000. If annual interest accumulates because of non-payment, the liens may generate a small amount of revenue for the District. Any payments on liens against these types of properties will be considered "O" type revenue, and therefore dedicated to the demolition or enclosure activities.

Title II – Low-Income Housing Preservation and Protections Act of 2001

Background

This title has several components with fiscal implications, including: tax abatement for the preservation of Section 8 housing in the District; tax abatement for improvements to very low income housing in the District; and tenant relocation services provided by the District government.

Section 8 Contract Renewals. The proposed legislation allows property owners engaged in a Housing Assistance Payment (HAP) Contract, a project-based HAP Contract under Section 8 of the U.S. Housing Act of 1937, to receive real property tax abatement if they renew the contracts. An owner will receive 50 percent real property tax abatement for one year for the taxable year in which the owner's HAP contract is renewed, if the contract is renewed for one year. An owner will receive 75 percent real property tax abatement for the taxable year in which the owner's HAP contract is renewed and for four years following if the contract is renewed for five years. An owner will receive 100 percent real property tax abatement for the taxable year in which the owner's HAP contract is renewed and for nine years following if the contract is renewed for ten years. The tax abatement is authorized only if the housing accommodation is located in an area in which the average rent of one bedroom and two-bedroom exceeds fair market rent by 25 percent or more, and if the housing accommodation would not be subject to a reduction in federal subsidy as a result of the tax abatement.

Renovations. Owners of affordable multi-family housing properties with five or more units will be eligible for 100 percent real property tax abatement for five years if the owner made qualified renovations to all dwelling units. The tax abatement begins with the year in which all units are ready for occupancy. Qualified renovations are those totaling at least $10,000 per dwelling unit and made within a 24-month period. Affordable multi-family housing means that households of one or more individuals earning less 50 percent and more than 30 percent of the area median income occupy at least 20 percent of the units.

Tenant Relocation. The proposed legislation will require that owners give one year notice to the District government prior to the expiration date of the Section 8 contract. If the owners intend to not renew the expiring Section 8 contract, one year notice would also have to be given to the tenants, as required by existing Federal law. For contracts not renewed, the Mayor reserves the right to inspect the property and make recommendations as to whether the District will seek to obtain the property. The legislation also requires the owners of properties that discontinue their participation in federally assisted housing programs to pay tenants a maximum of $500 in relocation expenses if the tenant will not still reside in the housing accommodation after the expiration of the contract. The District may provide relocation assistance payments of no more than $500 per tenant based on need and regulations to be established by the Mayor.

Financial Plan Impact

Forty-five project-based Section 8 contracts, or 3724 subsidized housing units, will expire in the District of Columbia from January 1, 2002 through the end of FY 2005, based on data from the U.S. Department of Housing and Urban Development (HUD). Of the 45 properties, 33 properties, or 3018 subsidized housing units, are for profit and are eligible for this incentive if they are located in a census tract where average rents are 25 percent greater than FMR. In addition, some of the properties are under budget-based contracts, meaning HUD provides funds for any property tax liability the owner may incur. Further, many of the property owners have qualified to pay five percent of the property's gross revenue each year in lieu of property taxes, Section 47-1002(20) of the DC Code. The legislation does not currently address how the properties that fall into this group would be affected.

The remaining qualifying property owners will not likely use the tax abatement since the amount of the tax abatement would be too small to induce such owners to renew their Section 8 contract. The additional revenue the Section 8 property owners would earn from not renewing their Section 8 contract and charging 25 percent more for rent would be, on average, 14 times higher than the amount of a 100 percent real property tax abatement, 19 times higher than the amount of the 75 percent tax abatement, and 29 times higher than the amount of the 50 percent tax abatement. This provision is not expected to be utilized and therefore would have no fiscal impact.

Based on DCRA permit data, it is estimated that approximately 70 properties would qualify for tax abatement for improvements provided under this legislation in the first year. Assuming a relatively constant number of property owners will qualify for this relief annually, and an annual increase of 3.5 percent in the base, this provision would result in $13.06 million in foregone revenue in FY 2002 through FY 2005. However, the legislation allows no more than $1 million in tax credits to be issued per fiscal year for this provision. The following table details estimated foregone real property tax revenue for FY 2002 through FY 2005.

Costs associated with implementing the other provisions of the proposed legislation are negligible and can be covered within existing resources. In requiring notification by the owners, the proposed legislation gives the District government the opportunity to inspect, assess, and purchase if desired, the property in an effort to preserve the amount of affordable housing available in the District. The proposed legislation does not authorize any funds for the District to purchase former Section 8 assisted properties. The costs associated with relocation assistance provided to dislocated tenants will be absorbed in DHCD's budget for FY 2002 and beyond.

The following table summarizes the net impact of Title II to the financial plan for FY 2002 through FY 2005.

Net Impact to the Financial Plan ($ in millions)					
Item	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
Reduced Tax Liability	$0.0	$1.0	$1.0	$1.0	**$3.0**
Section 8 Tax Abatement	N/A	0.0	0.0	0.0	**0.0**
Net Annual Impact	**$0.0**	**$1.0**	**$1.0**	**$1.0**	**$3.0**

There will also be costs associated with the tax administration of this provision. However, it is not possible to estimate the amount of the administrative costs until regulations governing the proposed property tax abatements are completed.

Title III – Historic Housing Tax Credit Act of 2001

Background

The proposed legislation would amend Chapter 18 of Title 47 of the D.C. Code to allow an owner-occupant to claim an income tax credit for a qualified rehabilitation to a home located within a Historic Preservation District. To qualify for the tax credit, homeowners would need to make a minimum of $5,000 of improvements to a certified structure over a 24-month period. An eligible taxpayer, defined as a taxpayer who earns 120 percent or less of the area median income, would be allowed a tax credit allocated in the following manner:

1) If the household income of the eligible taxpayer is equal to or less than 60 percent of the area median income, and has lived in the qualified structure for five or more years, the tax credit will be equal to 35 percent of qualified rehabilitation expenditures;
2) If the household income of the eligible taxpayer is equal to or less than 60 percent of the area median income, but the individual has not lived in the qualified structure for five or more years, the tax credit will be equal to 30 percent of qualified rehabilitation expenditures;

3) If the household income of the eligible taxpayer is greater than 60 percent of the area median income, and the taxpayer has lived in the qualified structure for five or more years, the tax credit will be equal to 25 percent of qualified rehabilitation expenditures;
4) If the household income of the eligible taxpayer is greater than 60 percent of the area median income, but the individual has not lived in the qualified structure for five or more years, the tax credit will be equal to 20 percent of qualified rehabilitation expenditures.

If the qualified residence is located in the Anacostia Historic District, then the tax credits outlined above would each increase by 15 percentage points.

The credit would be against individual District income taxes and would be taken in the taxable year in which the certified rehabilitation is completed. Credits could not exceed $25,000 in any 60-month period to an individual taxpayer. The proposed legislation would allow carryover of any excess credit amounts. <u>The proposed legislation allows for the transfer of the tax credit to another taxpayer.</u>

The proposed legislation limits the availability of the credit to homeowners in ten specific historic preservation districts with families of equal to or less than 120 percent of the area median income for the Washington Metropolitan Statistical Area or $102,720.

Financial Plan Impact

The proposed legislation limits the total amount of historic preservation tax credits to $1.25 million per year for FY 2003 through FY 2006. Considering the income and geographic limitations on the availability of this credit, our estimates suggest that the entire $1.25 will be used each year. The proposed legislation will result in a total revenue loss to the District's FY 2002 through FY 2005 financial plan of $3.75 million. The following table presents the estimated foregone revenue associated with the provisions of the proposed legislation.

Revenue Impact to the Financial Plan ($ in millions)				
FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
N/A	$1.25	$1.25	$1.25	**$3.75**

<u>Title IV – Low-Income, Long-Term Homeowners Protection Act of 2001</u>

Background

The legislation proposes changes to D.C. Code § 1806.8 et seq. of Title 47. This amendment provides an income tax credit for low income, long-term District residents owning homes that increased in value by more than five percent from one tax year to the next. Household eligibility requirements are:

1) Ownership as a principal residence of a class I property in which the household has resided for more than seven years; and
2) Gross income less than or equal to 50 percent of the area median income for the Metropolitan Washington Area, which is currently $42,800 for a family of four.

After satisfying eligibility requirements, the filer will be eligible for an income tax credit equal to the difference between the current year real property tax liability and 105 percent of the previous year's real property tax liability. The income tax credit may be carried over into succeeding tax years until credited funds are exhausted. There is a three-year statute of limitations on the use of the credit.

Financial Plan Impact

Based on tax year 1999 income tax filings, it is estimated that the District has 38,678 households with incomes less than or equal to 50 percent of the area median income. It is currently not possible to determine the length of residency of a given household. We assume that only half of this population, or an estimated 19,339 qualified filers, would apply for the proposed tax credit. The deduction for a household would be $72. Multiplied by the number of people in the estimated qualified population the potential foregone revenue for FY 2002 would be $1.4 million. Over time this would be expected to increase as property values grow. The tax credits allowed under this section would be allowed for tax years beginning on or after October 1, 2002.

Again, there will be substantial administrative costs associated with this program. These costs cannot be estimated at this time.

Estimated Foregone Revenue Impacting the Financial Plan ($ in millions)				
FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
N/A	**$1.4**	**$1.4**	**$1.4**	**$4.2**

Title V – Modification of the Housing Production Trust Fund Amendment Act of 2001

Background

The Housing Production Trust Fund is a permanent fund administered by DHCD to provide assistance in providing housing for low and moderate-income families and individuals, including the elderly, the disabled, and single-parent families. The Fund may be used to provide loans, and in some cases grants, to finance construction of new housing or rehabilitation or preservation of existing housing, to finance on-site child development centers, housing and housing services for the elderly, and site acquisition and operating capital. Loans provided by the Housing Production Trust Fund may be given to either individuals or developers, and used for either rental properties or owner-occupied properties.

The proposed legislation amends the Housing Production Trust Fund Act of 1988 to further define and expand the target population and to create additional revenue sources to ensure the continuation of the Housing Production Trust Fund. HUD has currently set the median family income limit for a family of four in the District of Columbia at $85,600 per year. The proposed legislation would require that at least 50 percent of the funds distributed from the Fund in a fiscal year be used to provide housing opportunities for very low-income and extremely low-income households, or those with income less than 50 percent of the area median income.

Federal grants have been the primary sources of funding for the Trust Fund to date.. The proposed legislation requires that, beginning October 1, 2002, 15 percent of the District's real estate transfer taxes and 15 percent of deed recordation taxes be deposited into the Housing Production Trust Fund as additional revenue sources. Also to be deposited into the Housing Production Trust Fund would be the proceeds from the District's sales of abandoned or deteriorated properties that the District may acquire as a result of the housing initiative in the FY 2001 budget.

The proposed legislation will also result in additional costs for the administration of the Housing Production Trust Fund due to increased activity and a newly created Housing Production Trust Fund Board. However, these costs will be fully offset by revenue in the Housing Production Trust Fund. The legislation places a limit on administrative costs of five percent of the total amount expended from the Fund each year.

Financial Plan Impact

Revenue collected by the District for deed recordation taxes and deed transfer taxes appear in the District's General Fund. According to FY 2002 revenue estimates, 15 percent of collections of both real estate transfer taxes and deed recordation taxes would total approximately $36.2 million as "O" type revenue for FY 2003 through FY 2005. These estimates assume a constant tax rate of 1.1 percent of consideration or fair market value. The amount of proceeds from sales to purchasers of the abandoned or deteriorated properties that the proposed legislation authorizes to be deposited into the Housing Production Trust Fund is negligible and not included in the District's FY 2002 through FY 2005 budget figures. The following table shows the estimated amount of tax revenue that would be deposited into the Housing Production Trust Fund and not in the District's General Fund should the proposed legislation be passed.

Net Impact to the Financial Plan ($ in millions)					
Item	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
15% Estimated Deed Recordation Revenue	N/A	$7.0	$6.8	$6.8	**$20.6**
15% Deed/Real Estate Transfer Revenue	N/A	5.6	5.2	4.8	**15.6**
Net Annual Impact	**N/A**	**$12.6**	**$12.0**	**$11.6**	**$36.2**

Title VI – Tax Abatement for New Residential Developments

Background

The proposed legislation amends Title 47 of the District of Columbia code to provide tax abatements for new residential developments in pre-approved areas of the District of Columbia. Eligibility is determined by the following criteria:

1) Must be a Class 1 or 2 property;
2) Must have made application for the abatement before the first day of the tax year of eligibility;
3) Must have received the Mayor's certification that the property and planned development are eligible for the tax abatement;
4) Must receive a valid building permit within 180 days after the Mayor certifies the tax abatement or before the Mayor certifies the tax abatement if the permit is received after April 30, 2001 and the property is located in Eligible Area #1;
5) Must be improved by new structures or substantial rehabilitation[2]; and
6) Must contain 10 or more units devoted to residential use.

The legislation requires the Mayor to determine the estimated market value of the property before the start of rehabilitation or construction and to calculate the residential property liability based on the estimated market value. The bill requires the Mayor to review requests on a first-come, first-served basis.

Upon meeting eligibility criteria, the filer will receive abatement from one of four programs. The "base year" means the taxable year in which abatement under the proposed legislation is first provided. In all four programs, the tax abatement would apply to the difference between the residential real property tax liability imposed by the D.C. Code and the real property tax liability calculated from the Mayor's estimated market value of the property.

[2] Defined in Section 399 of Title 10 of the District of Columbia Municipal Regulations.

Program 1: The tax abatement would be 50 percent for ten years for eligible property in Eligible Area #1, as defined by the proposed legislation.

Program 2: The tax abatement would be 85 percent for ten years for eligible property in Eligible Area #1, as defined by the proposed legislation, provided that 10 percent of the units are made available to low-income households, which are those with income equal to or less than 80 percent of the area median income.

Program 3: The tax abatement would be 75 percent for ten years for eligible property in Eligible Area #2, as defined by the proposed legislation, provided that five percent of the units are set aside for households with income less than 80 percent of area median income and 10 percent of the units are set aside for households with income 60 percent or less of area median income.

Program 4: The tax abatement would be 100 percent for ten years for eligible property in Eligible Area #2, as defined by the proposed legislation, provided that five percent of the units are set aside for those with incomes less than 80 percent of area median income; 10 percent of the units are set aside for households with income between 30 and 60 percent of area median income; and five percent are set aside for those with income less than 30 percent of area median income.

Programs 2, 3, and 4 require that the mixed income units themselves must be comparable in size and quality to the remaining units. The Mayor may at any time require the owners to certify eligibility and compliance to the provisions of the proposed legislation. If any Program 2, 3 or 4 development is found at anytime after receiving the abatement to be non-compliant to eligibility and composition criteria, the filer is subject to a $10,000 fine for each unit that does not conform.

Financial Plan Impact

The proposed legislation allows the Mayor to authorize $7.0 million in new tax abatement for all provisions in this title through December 31, 2004. The following table presents the estimated annual foregone revenue for FY 2002 through FY 2005. The estimates for FY 2003 through FY 2005 are cumulative, i.e., they include new tax abatement to be given each year plus the abatement approved in previous years. As the abatement is allowed for ten tax years, the estimated total foregone revenue will be $70 million through FY 2014.

Foregone Revenue Impacting the Financial Plan ($ in millions)				
FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
$0.5	$1.0	$3.0	$7.0	**$11.5**

There will also be substantial administrative costs associated with this program. At this time it is not clear that it will be possible to reasonably administer this program.

Title VII – Tax Abatement for Eligible Homeowners in Enterprise Zones Act of 2001

Background

This title has two components with fiscal implications - tax abatement for a single-family residential property in an enterprise zone and a tax credit for substantial rehabilitation of single-family residential property in an enterprise zone. In order to receive either the abatement or the credit, an individual must submit an application requesting certification of the property and rehabilitation as eligible and receive the Mayor's certification of the application and the abatement or credit. An eligible homeowner is defined as one with a household income of 120 percent or less of the area median income.

An eligible homeowner who substantially rehabilitates a home in an enterprise zone may receive a tax reduction equal to 100 percent of the amount by which the tax liability for the property would increase as a result of the rehabilitation for the tax year the rehabilitation is completed and for three years following. The home must be the principal residence of one or more members of the filer's household. The tax liability will be increased by 25 percent each year after the fourth tax year through FY 2007. Substantial rehabilitation means rehabilitation that exceeds $20,000 in a two-year period.

Owners who occupy their real property, pay District income tax, and perform qualified improvements, will qualify for a real property tax credit on their base tax liability. Specifically, for each $1,000 of qualified improvements, an owner is entitled to a $50 decrease in their property tax. The tax reduction cannot exceed $5,000 total, or in one year 50 percent of tax imposed in the preceding year. However, any unused amounts of the reduction may be carried forward five tax years.

An eligible homeowner would be able to apply for both the 100 percent abatement on the increase in tax liability and a credit on the previous tax year's liability up to $5,000.

Financial Plan Impact

Based on building permit data obtained from the Department of Consumer and Regulatory Affairs (DCRA), if approximately 800 properties could qualify for the property tax abatement for rehabilitation. The value of qualifying improvements for this group of properties is estimated at $64 million for FY 2002 through FY 2005. Therefore, a 100 percent abatement on the increase in real property tax liability would cause the District to forego approximately $3.96 million in real property taxes in FY 2002 through FY 2005. This analysis assumes 3.5 percent growth in the Class 1 property tax base in FY 2002 through FY 2005.

Estimated Foregone Revenue ($ in millions)				
FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
$0.00	$0.61	$1.30	$2.05	**$3.96**

The same population would be allowed to apply for a reduction in property tax of $50 per each $1,000 of qualified improvements. The total reduction, however, cannot exceed fifty percent of the previous year's tax liability, but unused portions may be carried forward to a maximum of five years past the completion of the improvement(s).

The proposed legislation limits the Mayor to approving a total of $1.0 million in tax credits under the proposed legislation. The following table presents the estimated annual foregone revenue should the limit be reached by FY 2005.

Foregone Revenue Impacting the Financial Plan ($ in millions)				
FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
$0.00	$0.50	$0.25	$0.25	**$1.00**

There will also be substantial administrative costs associated with this program. At this time it is not clear that it will be possible to reasonably administer this program.

Title VIII – Modifications to the Homestead Housing Preservation Program Amendment Act of 2001

Background

The proposed legislation establishes a Homestead Repayment Fund, to be used as a repository for the money received as repayment of loans authorized under the Homestead Housing Preservation Act of 1986. The purpose of the proposed legislation is to re-circulate funds received as payments from existing Homestead Loans, thus making available funds for additional loans. Currently funds from repayment of these loans are deposited into the District's General Fund.

Financial Plan Impact

The proposed legislation removes the revenue neutrality components of the original Homestead Housing Preservation Act of 1986 by redirecting the loan repayment revenue stream. Under the provisions of the original legislation, the District would make loans from its existing resources. The District recovers these funds when payments are made on the loans from replacement of the notes through payoff, re-sale or refinancing of the property. The payments made to the District currently become General Fund revenue. Under the proposed legislation, the payments would be considered "O" type revenue and would be deposited into the Homestead Repayment Fund.

The following table presents the estimated total revenue loss to the FY 2002 through FY 2005 budget and financial plan. The figures represent the amount of local match funds the District is expected to allocate to the Homestead program for loans and also the amount expected in repayment.

Revenue Impact to the Financial Plan ($ in millions)				
FY 2002	**FY 2002**	**FY 2003**	**FY 2005**	**4-Year Total**
$1.0	$1.0	$1.0	$1.0	**$4.0**

Title IX – Acquisition and Disposal of Abandoned and Deteriorated Property Act of 2001

Background

The proposed legislation amends Title IV of the Abatement and Condemnation of Nuisance Properties Omnibus Amendment Act of 2000 to authorize the acquisition of abandoned or deteriorated property. It also authorizes the development or redevelopment of any abandoned or deteriorated property acquired by the District. This includes, but is not limited to, demolition or renovation of the property otherwise eliminating blight or unsafe conditions. The proposed legislation authorizes the purchase, sale, transfer, or other disposition of abandoned or deteriorated property acquired, regardless of whether it has been altered or improved.

Financial Plan Impact

Funds are not sufficient in the FY 2002 through FY 2005 budget and financial plan because components of the proposed legislation will require additional staff and resources. No funds are provided to implement this part of the proposed legislation. Costs cannot be determined at this time.

Title X – District Matching Funds for Employer-Assisted Home Purchase Programs

Background

The proposed legislation would further amend Title 47 of the District of Columbia Code to allow for a homeowner assistance program, in which employers would establish programs to assist employees in becoming first-time homeowners by providing for the down payment or other acquisition costs. The legislation states that an eligible employer may reduce its annual income or franchise tax obligation to the District of Columbia by an amount equal to 50 percent of the homeownership assistance provided by the employer to its eligible employees during the taxable year. The reduction cannot exceed $2,500 for each employee who receives homeownership assistance. The gross income of an employee shall not include amounts received under the homeownership assistance program. Eligible employees are first-time homebuyers, which is defined as not having owned a home in the District in the previous 12 months, and must reside in the real property for five years.

Financial Plan Impact

This program has two components; credits for employers and exemption of income for individuals. Assuming that this credit is not refundable, the population of employers in a position to benefit from this program is relatively small. Of the 20,000 or so for-profit employers in the District, only about 3,500 actually have tax liability of $5,000 or greater. There is a rough correlation between the size of the firm and the probability that it will have a tax liability of $5,000 or greater. Collectively, these firms employ about 355,000 workers, of whom roughly 117,000 live in the District.

In calendar year 1999, 2.6 percent of the District's households purchased houses. Using this as a proxy for how frequently an employee in the District would buy a house, then approximately 3,000 of the 117,000 employees identified above would purchase a house on an annual basis. Given the double incentive to buy a house from the homebuyer credit and the employer assistance, it is likely that a higher percentage will take advantage of home-buying opportunities in the first few years. Since not all companies will offer this benefit, this analysis assumes that no more than 25 percent will do so.

The proposed legislation allows assistance provided by an employer to a qualified employee to be excluded from the employee's gross income. Although the amount of this assistance is not limited in the legislation, it is likely that assistance will be limited to $5,000 per employee, as this is the maximum that employers will be allowed to claim as a credit, assuming that this credit is not refundable.

The following table shows the total amount of employer assistance, or foregone franchise tax revenue, estimated for each year. The table also lists the tax rate applied in that year to the top marginal tax rate; this rate changes due to implementation of the Tax Parity Act of 1999. Thus the foregone income tax revenue resulting from not including housing assistance in an employee's gross income can be estimated.

Estimated Foregone Revenue Impacting the Financial Plan ($ in millions)					
Item	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
Total Employees	0	117,000	117,000	117,000	
Percentage Purchases	0%	2.6%	5.2%	4.3%	
Employees Using Credit	0	3,042	6,084	5,031	
Employers Participating	0	25%	25%	25%	
Foregone Franchise Tax	N/A	$1.9	$3.8	$3.15	**$8.85**
Top Marginal tax rate	N/A	9.0%	8.7%	8.5%	
Foregone Income Tax	N/A	$0.34	$0.66	$0.54	**$1.54**
Annual Foregone Revenue	**N/A**	**$2.24**	**$4.46**	**$3.69**	**$10.39**

There will also be costs associated with the tax administration of this provision. However, it is not possible to estimate the amount of the administrative costs until regulations governing the proposed property tax abatement and assessment freeze are completed.

Title XI - Homeownership Counseling

Background

The proposed legislation authorizes a homeownership counseling program for residents of the District. The program will include:

- Information on credit ratings and credit management;
- Warnings against predatory lending practices;
- Information on how to purchase a home, on financial resources for first-time homebuyers, and on financial planning after purchasing a home; and
- Compilation of all federal and District tax provisions and homeownership programs.

The legislation also requires that the assistance information be made available over the Internet and provided to all public libraries in the District.

Financial Plan Impact

The District government currently contracts with four organizations in the city to provide services similar to those required in the proposed legislation. As the organizations do not anticipate the need for additional staff or other resources, there is no fiscal impact associated with this portion of the proposed legislation.

Summary Table

The following table presents a summary of the net impacts of the proposed legislation to the proposed FY 2002 through FY 2005 budget and financial plan.

Summary Impact to the Financial Plan ($ in millions)						
Item	**Description**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
Direct Revenue Impacts						
Title I	Due Process Demolition	$ 0.00	$ 0.00	$ 0.00	$ 0.00	**$ 0.00**
Title II	HUD Sec. 8 Conversion	0.00	1.00	1.00	1.00	**3.00**
Title III	Historic Housing Tax Credit	0.00	1.25	1.25	1.25	**3.75**
Title IV	Low-Income, Long Term Prot.	0.00	1.40	1.40	1.40	**4.20**
Title V	Housing Production Trust Fund	0.00	12.60	12.00	11.60	**36.20**
Title VI	New Residential Tax Abatement	0.50	1.00	3.00	7.00	**11.50**
Title VII	Tax Abatement Homeowners EZ	0.00	1.11	1.55	2.30	**4.96**
Title VIII	Mod. to Homestead Program	1.00	1.00	1.00	1.00	**4.00**
Title IX	Acquisition & Disposal					
Title X	Employer-Assisted Home Purchases	0.00	2.24	4.46	3.69	**10.39**
Title XI	Homeownership Counseling	0.00	0.00	0.00	0.00	**0.00**
Direct Expenditure Impacts						
	Expenditures for Administration	N/A	N/A	N/A	N/A	**N/A**
	Net Annual Impact	$ 1.50	$ 21.60	$ 25.66	$ 29.24	**$ 78.00**

N/A – Not available, but more than zero.