

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: February 3, 2003

SUBJECT: Fiscal Impact Statement: "District of Columbia Cultural, Arts, Recreation and Education (CARE) Facilities Support Act of 2003"

REFERENCE: Draft Proposed Bill

Conclusion

Funds are not sufficient in the proposed FY 2003 through FY 2006 budget and financial plan to enact the District of Columbia Cultural, Arts, Recreation and Education (CARE) Facilities Support Act of 2003. **The proposed legislation would spend \$75 million on CARE Facilities between FY 2003 and FY 2006.**

Background

This bill would allow the District to provide grants, loans and others forms of economic assistance to certain non-profit groups to help defray capital costs. Seventy-five million dollars of economic assistance would be generated via general obligation (GO) bonds and/or reductions in property tax payments going to the general fund. These funds would be deposited into the existing O-type Industrial Revenue Bond Program Fee Account and used to provide loans or secure bonds for CARE projects.

Financial Plan Impact

Funds are not sufficient in the proposed FY 2003 through FY 2006 budget and financial plan to implement the bill. While expenditures up to \$75 million are authorized, the flexibility provided by this bill makes it very difficult to determine the timing of this spending. Following are two examples of how the assistance may be provided, and the potential fiscal impact of each.

Example #1: Funding the program entirely from reductions in real property tax payments going to the local General Fund. This funding source would be the more expensive option for the District. The baseline portion of the real property tax amount would continue to be deposited into the General Fund; the increment over the baseline amount would be deposited into the O-type fund dedicated to CARE assistance.

The \$75 million increment represents a natural growth in real property tax revenue that would have been otherwise deposited into the General Fund. Approximately 65 percent to 70 percent of the District's real property tax revenue is used to fund existing GO bond debt repayment. Any reductions in the amount of real property tax available for GO debt service would increase the proportion of collected real property tax revenue that must be used for debt service. The effect would be less general fund revenue available for other District programs and priorities.

Example #2: Funding the program entirely with GO Bonds

Funding the CARE program entirely from GO Bond proceeds would be the least expensive financing option. In this case, GO bonds would be sold to net \$75 million to be used as grants to qualified CARE organizations. Assistance provided by GO bonds is limited due to tax laws restricting the uses of their proceeds. If all assistance were provided via proceeds from GO bonds, the assistance would be limited to grants to non-profit organizations.

In this case, the District's capital budget would increase by \$75 million and debt service paid out of the operating budget would increase by about \$3.75 million (assuming an interest rate of 5 percent).

Any combination of these two ways of providing support for CARE facilities is possible. As a result, the District would spend \$75 million that is not in the FY 2003 through FY 2006 budget and financial plan.