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** **Chair, Council of the District of Columbia**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	FEB -5 2007
SUBJECT:	**Fiscal Impact Statement: "Owner-Occupant Residential Tax Credit Act of 2007"**
REFERENCE:	**Bill Number 17-019**

Conclusion

Funds are not sufficient in the FY 2007 through FY 2010 budget and financial plan to implement the provisions of the proposed legislation. The proposed legislation would result in reduced revenue to the District of Columbia of $17.1 million in FY 2008 and $58.9 million in the FY 2007 through FY 2010 period.

Background

The proposed legislation would amend the owner-occupant residential tax credit (Cap) under Title § 47-864 of the District of Columbia Official Code to change the allowable increase in annual residential property tax from 10% to 5% starting in FY 2008.

The current Cap provides that a qualifying property may not be taxed on more than a 10% increase in the property's assessed value annually. In addition to occupying the residence, a homeowner must apply for the Cap and qualify for the homestead deduction (under § 47-850 or § 47-850.01), which is currently $60,000. The owner-occupant that is potentially eligible for the Cap must not have sold the property in the past year and must not have completed major renovation or rehabilitation of the property in the past year.

The Cap was implemented in TY 2002 with an annual limit of 25% and was subsequently lowered to 12% in TY 2004 and again to 10% in TY 2006. In TY 2007, approximately 93% of the 93,590 homestead properties in the District are estimated to be participating in the Cap program. At its current 10% level, the Cap is estimated to reduce real property tax revenue by $165 million, compared to a baseline of no Cap.

Estimates for the cost of lowering the annual residential property tax cap from 10% to 5% were derived by analyzing the most recent real property tax database from the Office of Tax and Revenue (OTR). The cost estimate was generated in three steps. First, each owner-occupied residence in the District was classified by its tax cap status in 2006 and 2007. Second, the revenue loss due to the lowering of the cap to 5% was estimated for each eligible property. Third, the individual household data were then aggregated to generate a District-wide estimated loss of $17 million the first year of the new cap.

In addition to a reduction of revenue, the proposed legislation would require OTR resources in order to implement it. Specifically, OTR would require one full-time equivalent (FTE) employee and programming changes. Although the proposed legislation would not lower the Cap until FY 2008, the programming changes would occur in FY 2007 in preparation for the change.

Financial Plan Impact

The proposed legislation would result in reduced revenue to the District of Columbia of $17.1 million in FY 2008 and $58.9 million in the FY 2007 through FY 2010 period, as indicated in the table below.

Table 1. Impacts to the Financial Plan of the Owner-Occupant Residential Tax Credit Act of 2007
($ in millions)

Item	FY 2007	FY 2008	FY 2009	FY 2010	4-Year Total
Reduced Revenue Collections	$0	$17.0	$19.6	$22.1	**$58.7**
Unbudgeted Operational Costs	$.07	$.05	$.05	$.05	**$0.22**
Net Annual Impact	$.07	$17.05	$19.65	$22.15	**$58.92**

Note: Operational costs are rounded. Actual costs are $67, 627 in FY 2007 and an annual cost of $54,119 in FY 2008-2010.