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: APR 25 2007

SUBJECT: **Fiscal Impact Statement: "Multi-unit Real Estate Tax Rate Clarification Act of 2007"**

REFERENCE: **Bill Number 17-072 as Introduced**

Conclusion

Funds are not sufficient in the Mayor's proposed FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. The proposed legislation is likely to result in a negligible revenue loss to the local General Fund but will have implementation costs of $100,000 in FY 2008 and $400,000 in FY 2008 through FY 2011.

Background

The proposed legislation would amend District of Columbia Official Code § 47-820 to require the District to determine the fair market value of multi-unit residential real estate without regard to potential conversion to condominium or cooperative ownership. This proposed change in assessment practice would begin with assessment for Tax Year 2008. Furthermore, the legislation would specify that the sale of a multi-unit residential property is not to be presumed to be for conversion purposes unless the owner seeks to convert within three months of the sale.

Under current District law (Title § 47-820(3)), the Office of Tax and Revenue (OTR) "shall take into account any factor that may have a bearing on the market value of real property." The proposed legislation, therefore, would remove one of the factors available to OTR for real property assessment.

By disregarding the potential conversion to condominium or cooperative, the legislation would provide mitigation of any premium for condominium property in the D.C. residential real estate market. Consideration of conversion in establishing fair market value is likely to raise the value of the multi-unit rental property relative to similar rental properties that do not have conversion potential. Given recent developments in the D.C. residential real estate market, however, it is not clear if a condominium conversion premium still exists.[1]

Financial Plan Impact

Funds are not sufficient in the Mayor's proposed FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation.

From a revenue perspective, it is estimated that the proposed change in property tax assessment procedures will not reduce real property tax collections by a significant amount. However, the Office of Tax and Revenue (OTR) will require additional resources in order to implement the provisions of the proposed legislation. An additional $100,000 will be required for a staff addition in FY 2008 and ongoing costs associated with the staff in outyears.

Figure 1.

Summary Table
Estimated Impacts to the Financial Plan
($ in millions)

Item	FY 2008	FY 2009	FY 2010	FY 2011	4 - Year Total
Reduced Revenue Collections	Negligible	Negligible	Negligible	Negligible	Negligible
Unbudgeted Operational Burden	$.1	$.1	$.1	$.1	$.4
Net Annual Impact	$.1	$.1	$.1	$.1	$.4

[1] One indication of a premium for condominium conversion would be the existence of an increase in the number of condominiums under construction, relative to apartment units. In December 2005, the number of condominiums under construction in the District had increased by 2,829 from December 2004. By comparison, the number of rental apartments had *declined* by 1,627 compared to a year earlier. By December 2006, however, the number of condominiums under construction in the District had increased by 1,509, while the number of apartment units under construction had risen by 1,303, compared to December 2005. The provides some evidence to suggest that the demand for condominiums relative to apartments, and thus the premium for condominium conversion, has cooled considerably in the past year.