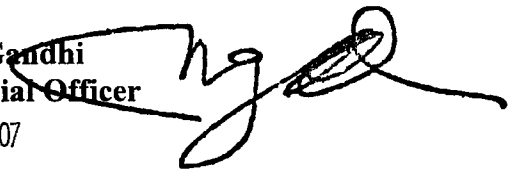


**Government of the District of Columbia
Office of the Chief Financial Officer**



TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi 
Chief Financial Officer
OCT -1 2007

DATE:

SUBJECT: Fiscal Impact Statement: "East of the River Hospital Revitalization Act of 2007"

REFERENCE: Draft Legislation submitted by Chairman Vincent C. Gray at the request of the Mayor

Conclusion

By exempting the future purchase of the Greater South East Hospital site by Specialty Hospitals of America, LLC (or its subsidiaries) from deed taxes, the proposed legislation would reduce the District of Columbia's revenue collection by \$1.88 million for the FY 2008 – FY 2011 period. However, the September 6, 2007 revenue estimate certified an additional \$30.2 million for FY 2008. Before September 6, bills passed subject to a revised revenue estimate totaled \$6.7 million, leaving \$23.5 million available. If the Council approves this draft legislation "East of the River Hospital Revitalization Act of 2007," the next certified revenue estimate will reflect a reduction of \$1.88 million in deed taxes.

This Fiscal Impact Statement is based on the Draft Legislation received by the OCFO on October 1, 2007.

Background

The East of the River Hospital Revitalization Act lays down the financial background for a potential public-private partnership between the District of Columbia Government and Specialty Hospitals of America, LLC (Specialty hereafter). This public-private partnership would enable by non-competitive negotiations Specialty to own and operate the Greater South East Community Hospital located in Square 5919, Lots 3 and 4. Title I of the proposed legislation amends the Community Access to Healthcare Amendment Act of 2006 (D.C. Law 16-288; D.C. Official Code § 7-1932(b)(1)) to allocate up to \$79 million from the Community Health Care Financing Fund as investment in this partnership. Title II limits the Certificate of Need application fees by Specialty or its subsidiaries for facilities located in Square 5919, Lots 3 and 4

to \$300,000. Title III exempts the transfer of the Greater South East Community Hospital property to Specialty from deed transfer and recordation taxes. Title IV exempts the current improvements on the Greater South East Community Hospital property from real property taxes conditional on Specialty's ownership of this property.

Financial Plan Impact

Titles I and II of the proposed legislation do not have a financial impact on the District's four-year Budget and Financial Plan. Title I makes available \$79 million from the Community Health Care Financing Fund towards a public-private partnership that would facilitate the ownership and management of the Greater Southeast Community Hospital by Specialty. The Community Health Care Financing Fund holds the securitized proceeds of the Tobacco Settlement Asset-Backed Bonds, Series 2006 and receipts from any fees and taxes specifically identified by District law to be paid into the Fund. The current balance of this Fund is approximately \$245 million.

Title II limits the Certificate of Need application fees to \$300,000. This limitation does not affect the revenues of the State Health Planning and Development Agency, which currently administers this program. Under the D.C. Code §44-420 that governs the certificate of need application fee schedule, the application fees are already limited to \$300,000 for private hospitals. In lieu of a certificate of need application fee, these hospitals must pay annual user fees (\$4/admission) upon establishing or acquiring a facility. Specialty would continue paying these user fees upon purchasing the Greater South East Community Hospital.

Title III exempts the sale of the Greater South East Hospital property to the Specialty from deed transfer and recordation taxes. The current assessed value of land and current improvements on Lots 3 and 4 of Square 5919 is \$64,912,580. Both the deed transfer and the deed recordation taxes are calculated as 1.1% for values up to \$400,000 and 1.45% for values above \$400,000. The value of deed taxes, calculated in this manner is \$1.88 million (Table 1).

Table 1 – Deed Transfer and Recordation Taxes on Square 5919, Lots 3 and 4					
	Assessed for FY2008	Recordation Tax Rate	Transfer Tax Rate	Total Deed Taxes	Total Tax
Lot 3	\$2,875,340	1.45%	1.45%	2.90%	\$83,385
Lot 4	\$62,037,240	1.45%	1.45%	2.90%	\$1,799,080
Total	\$64,912,580				\$1,882,465

Title III is the sole source of estimated financial impact with respect to this Draft Legislation. The fiscal impact of the exemption over the four year financial plan is \$1.88 million (Table 2).

Title IV exempts the current improvements in Square 5919, Lots 3 and 4 from real property taxes. Ordinarily, such an exemption would have an impact on the District's Budget and Financial Plan, but the hospital and its site are already exempt from property taxes through the end of FY 2007. This title extends this exemption indefinitely, conditional on Specialty's

ownership of this property.¹ Because the property was already exempt, Title IV does not impose any changes to the District's Budget and Financial Plan.

Table 1 – Net Financial Impact of the East of the River Hospital Revitalization Act of 2007" in millions					
	FY08	FY09	FY10	FY11	Total
Title I – Allocation of \$79 million from Community Health Care Access Fund	No Net Financial Impact				
Title II- CON Application Fee Limitation	No Net Financial Impact				
Title III - Exemption from Deed Transfer and Recordation Taxes	\$1.88	0	0	0	\$1.88
Title IV- Property Tax Exemption*	No Net Financial Impact				
Total	\$1.88	0	0	0	\$1.88

*There are additional costs of forgone property taxes of \$4.35 million over the FY08-FY11 period because the agreement reestablishes the exempt status of GSE, which were to be revoked at the end of FY2007. However, no additional funds are necessary to support this exemption because the certified revenue estimates already reflected the property as exempt from property taxes.

¹ Originally, this property was exempt from real property taxes through FY 2020 (D.C. Code §47-1050), but the Budget Support Act of 2007 revoked the exemption by the end of FY2007.