**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:** JAN -7 2008

**SUBJECT:** **Fiscal Impact Statement: "Small Business Commercial Property Tax Relief Act of 2007"**

**REFERENCE:** **Bill Number 17-020, Committee Print**

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**Conclusion**

Funds are sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the provisions of the proposed legislation.

**Background**

The proposed legislation would amend three sections of D.C. Official Code to increase the percentage of funds that are deposited into the Neighborhood Investment Fund (NIF), to reduce the real property tax rate for a subset of Class 2 properties, and to increase the amount of tangible personal property exempt from the personal property tax.

First, the proposed legislation would amend D.C. Official Code § 6-1071(a) to increase the percentage of personal property tax revenue deposited annually into the NIF from 15% to 17.4%. However, the proposed legislation would not alter the existing cap of $10 million annual deposits into the NIF. The increase from 15% to 17.4% would be in conjunction with an increase in the exemption for the personal property tax. Because the exemption increase would lower the revenue base for the personal property tax, the increased rate to determine the transfer to the NIF would be necessary to keep the change revenue neutral.

Second, the proposed legislation would amend D.C. Official Code § 47-812 to alter the calculation of the real property tax rate for Class 2 (Commercial) properties. Specifically, the proposed legislation would require the Office of the Chief Financial Officer (OCFO) to use two rates for the taxation of Class 2 properties – a calculated rate for the first $3 million of assessed value of Class 2 properties and $1.85 for each $100 of assessed value exceeding $3 million (though the first $3 million for all properties is taxed at the lower calculated rate). For Fiscal Year 2009 (starting October 1, 2008), the rate for the first $3 million of assessed value would be determined by comparing the current estimated real property tax revenue for Class 2 properties ($1.199 billion, a number that is explicit in the proposed legislation) ) to the amount estimated before September 16th, 2008. To the extent that the amount estimated before September 16, 2008 exceeds the threshold of $1.199 billion, this difference is then automatically used for calculating a lower statutory tax rate on the first $3 million of assessed value for all taxable Class 2 properties. This calculated rate scales the estimated FY 2009 yield to the general fund back down to $1.199 billion.

For Fiscal Year 2010 and each subsequent year, a similar threshold method is used: any estimated revenues in excess of the the OCFO certified revenue estimates of the September before the fiscal year begins are set aside for tax rate reduction. In each of these years the threshold is set at ten percent (10%) over the prior fiscal year's real property taxes generated by Class 2 properties.

Third, the proposed legislation would amend D.C. Official Code § 47-1522(a) to increase the amount of personal property exempt from taxation from $50,000 to $225,000.

**Financial Plan Impact**

Funds are sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the provisions of the proposed legislation.

First, the proposed increase in the percentage used to determine the transfer to the NIF would not result in a negative fiscal impact. Due to another provision of the proposed legislation (increasing the exemption level for the personal property tax from $50,000 to $225,000), the revenue base on which the transfer is based will decrease. In order to keep the NIF funded at projected levels, therefore, the percentage transferred would be increased from 15% to 17.4%. Based on current revenue estimates, the amount transferred to the NIF would meet the statutory cap of $10 million in each of the next four fiscal years.

Second, the proposed change to the calculation of the property tax rate for Class 2 properties would not have a negative fiscal impact on the FY 2008 through FY 2011 financial plan. Revised revenue estimates must be above current projections in order for the rate change to occur. Therefore, the proposed calculated rate for Class 2 properties would be fiscally neutral relative to the budget and financial plan.

While this proposed change in the calculation of the Class 2 property tax rate will not result in a negative fiscal impact in the FY 2008 through FY 2011 budget and financial period, there is a possibility of a longer-term cost of the legislation. Should commercial property tax revenues grow by more than 10% in future years, the excess revenue would go into rate reductions for commercial property tax payers and would not be available for the District's General Fund revenues.

Third, the proposed increase in the personal property tax exemption would result in an estimated decrease in personal property tax revenue of $44.3 million in the FY 2008 through FY 2011 budget and financial period. However, an amount of $11.073 million per year for commercial property tax relief was reserved in the FY 2008 Budget Support Act of 2007 (Subtitle I-G) to fund the costs of the increased exemption. Thus, there would be no negative fiscal impact from this provision of the proposed legislation.