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

Natwar M. Gandhi
Chief Financial Officer

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

FROM: **Natwar M. Gandhi**
Chief Financial Officer

DATE: JAN 25 2008

SUBJECT: **Fiscal Impact Statement: "East of the River Hospital Revitalization Tax Exemption Amendment Act of 2007"**

REFERENCE: **B17-464**

Conclusion

Funds are sufficient in the FY 2008 to FY 2011 Budget and Financial Plan to implement the provisions of the proposed legislation.

The proposed legislation will result in $1.88 million of foregone revenues from deed recordation and transfer tax collections related to the sale of the Greater Southeast Hospital. The Council authorized this tax exemption by approving the "East of the River Hospital Revitalization Emergency Act of 2007" on October 2, 2007. The anticipated revenue losses were reflected in the Revised Revenue Estimates for FY 2008-2012 issued on December 06, 2007.

Background

The East of the River Hospital Revitalization Tax Exemption Amendment Act exempts the transfer of the Greater South East Community Hospital property to Specialty Hospitals of Washington GSE Holdings LLC (or its subsidiaries) from deed transfer and recordation taxes. It also exempts the current improvements on the Greater South East Community Hospital property from real property taxes provided that the owner of the Greater South East Hospital's property—Specialty Hospitals of America LLC, certain of its subsidiaries, or any third party that purchases, leases or exchanges parts or wholes of Square 5919, Lots 3 and 4—abides by the loan repayment agreement between Specialty Hospitals of America LLC or certain of its subsidiaries, and the Greater Southeast Investment L.P.—the partnership through which the Government of the District of

Columbia has provided $29 million in Acquisition Loan to Capitol Medical Center LLP and CMC Realty LLC. The tax exemption would terminate when the $29 million loan is fully repaid. Section 4 of the Bill designates all loan payments and proceeds arising from a disposition of Square 31 5910, Lots 3 and 4 to the Community Health Care Financing Fund.

Financial Plan Impact

Section 2 of the Bill 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 1.45% (because the property values exceed $400,000). The value of deed taxes, calculated in this manner is $1.88 m.

The East of the River Hospital Revitalization Emergency Act of 2007 authorized the property tax exemption for this transaction. The revenue losses have already been reflected in the revised revenue estimates issued by the OCFO on December 12, 2007.

Section 3 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.[1] Therefore no additional funds are necessary to support this exemption.[2]

Section 4 designates payments received in return for the loan Greater Southeast Investment L.P. extended to the Specialty Hospitals of America LLC and its certain subsidiaries, and any proceeds arising from a disposition of Square 31 5910, Lots 3 and 4 to the Community Health Care Financing Fund. This is a change from B17-0388 East of the River Hospital Revitalization Amendment Emergency Act of 2007 (A17-0168) for which the OCFO earlier prepared a fiscal impact statement. B17-0388 did not designate the proceedings from the loan payments or disposition of the property to any fund.[3] Because these payments and proceedings do not have a clear timeline, they are not reflected in the budget and financial plan, and therefore there is no fiscal impact from this change.

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[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.

[2] But, the property tax exemption does impose costs to the District: it would reduce the District's revenues by an estimated $4.35 m over the next four years. The FY 2008 Assessment of the current improvements on the property is 55,026,890. The property tax on the improvement, calculated at 1.85% of the assessed value, is $1,017,997 for FY 2008 and $4,355,188 over the four-year plan.

[3] When payments and proceedings due to the District of Columbia Government are not dedicated to a specific fund, the practice is to direct those payments to the general fund. Fiscal impact statements assess the impact of legislations on the general fund reflected in the budget and four year financial plan. Therefore, legislation that diverts receivables from the general fund has a fiscal impact to the extent that those receivables are recognized in the budget and financial plan.