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**
Chairman, Council of the District of Columbia

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

DATE: FEB - 5 2008

SUBJECT: **Fiscal Impact Statement: "District of Columbia Possessory Tax Stabilization Act of 2007"**

REFERENCE: **Bill Number 17-549 as Introduced**

Conclusion

Funds are not sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. The proposed legislation would result in reduced revenues of $2.3 million in FY 2008 and a total of $13.1 million in the FY 2008 through FY 2011 period. Implementation of the provisions of the proposed legislation is subject to the inclusion of its fiscal effect in an approved budget and financial plan or a revised revenue estimate.

Background

The proposed legislation would amend D.C. Official Code § 47-1005.01 to freeze possessory interest assessments and taxes at Fiscal Year (FY) 2007 levels through FY 2010. The "possessory interest" tax is imposed on property lessees who operate a business on land owned by the Federal Government, District Government, or government entities, all of which are exempt from real property tax. The possessory interest tax, which is determined in a manner similar to the real property tax imposed on private property owners, was enacted in 2000 to place businesses operating on exempt land on par with taxable private property owners.

In addition to freezing possessory interest assessments and taxes for 3 years, the proposed legislation would also require the Office of the Chief Financial Officer (OCFO) to conduct a study of the possessory interest tax that would include an analysis of the equity of the possessory

1350 Pennsylvania Avenue, N.W., Suite 209, Washington, DC 20004 (202) 727-2476
www.dccfo.com

interest tax and a documentation of the number, identity, and scope of potentially liable entities in the District.

Financial Plan Impact

Funds are not sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. The proposed legislation would result in reduced revenues of $2.3 million in FY 2008 and a total of $13.1 million in the FY 2008 through FY 2011 period. The reduced revenue would result from the difference in FY 2008 through FY 2010 between the expected possessory interest tax revenue and the 2007 level of $5.3 million.[1] Implementation of the provisions of the proposed legislation is subject to the inclusion of its fiscal effect in an approved budget and financial plan or a revised revenue estimate.

Estimated Impact to the Financial Plan of the District of Columbia Possessory Tax Stabilization Act of 2007 ($ in millions)					
Item	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**4 - Year Total**
Estimated Liability	$7.6	$9.5	$11.9	$14.8	**$43.8**
Tax Liability under B17-549	$5.3	$5.3	$5.3	$14.8	**$30.7**
Reduced Revenue	$2.3	$4.2	$6.6	$0.0	**$13.1**

[1] In FY 2008, there are 180 entities subject to the possessory interest tax with a total estimated tax liability of $7.6 million. For the tax liability in FY 2009 through FY 2011, it is estimated that the entire possessory interest tax base will grow at 25 percent annually. This conservative growth assumption is based on recent above-average growth for the relevant 180 properties, the expectation that the Office of Tax Revenue (OTR) will identify new entities subject to the possessory interest tax, and improved information on square footage of affected entities.