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: **May 21, 2009**

SUBJECT: **Fiscal Impact Statement – "Union Station Redevelopment Corporation Payment in Lieu of Taxes Act of 2009"**

REFERENCE: **Bill Number 18-220, As Introduced**

Conclusion

Funds are not sufficient in the FY 2009 budget and the proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation. The proposed legislation would result in a negative fiscal impact of approximately $5.2 million in FY 2009, $2.5 million in FY 2010 and $14.9 million over the FY 2009 budget and the FY 2010 through FY 2013 budget and financial planning period.

Implementation of the proposed legislation would be subject to the inclusion of its fiscal effect in an approved budget and financial plan.

Background

The proposed legislation would amend Chapter 46 of Title 47 of the D.C. Official Code to exempt indefinitely Lot 171, Square 720, known as Union Station, from possessory interest tax; and instead require the property leaseholder, Union Station Redevelopment Corporation, to make an annual payment in lieu of taxes (PILOT) in the amount of $253,000. The amount of the PILOT payment would increase each year; the base amount of $253,000 would be adjusted using the Consumer Price Index for the Washington-Baltimore Metropolitan Statistical Area. The proposed legislation would also exempt the lessees or sub-lessees of the Union Station Redevelopment Corporation from the imposition of real property tax as authorized under § 47-1005.01 of the D.C. Official Code.

Square 720, Lot 171 is a federally owned property, which has been leased to the Union Station Redevelopment Corporation.[1] Under current law, Union Station Redevelopment Corporation is subject to possessory interest tax under D.C. Official Code § 47-1005.01. The possessory interest tax is imposed on property lessees who operate a business on land owned by the Federal Government. The tax is imposed on the estimated value of leases and not on the assessed value of the property.

Financial Plan Impact

Funds are not sufficient in the FY 2009 budget and proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation. The proposed legislation would reduce real property tax collections by approximately $5.2 million in FY 2009 and $14.9 million over the FY 2009 budget and FY 2010 through FY 2013 budget and financial plan period. The table below presents the detailed calculation of the fiscal impact of Bill Number 18-220.

Estimated Fiscal Impact
FY 2009 Budget and the Proposed FY 2010 — FY 2013 Budget and Financial Plan

	FY 2009[d]	FY 2010	FY 2011[a]	FY 2012[a]	FY 2013[a]	5-Year Total
Value subject to Possessory Interest Tax	$151,128,440	$146,594,587	$145,275,236	$144,548,860	$146,283,446	
Estimated Tax Liability[b]	$5,714,427	$2,706,000	$2,681,592	$2,668,154	$2,700,244	$16,470,416
Total Tax Liability Under B18-220[c]	$506,000	$253,000	$259,325	$266,067	$273,517	$1,557,909
Total Negative Fiscal Impact	**$5,208,427**	**$2,453,000**	**$2,422,267**	**$2,402,087**	**$2,426,727**	**$14,912,507**

[a] The value of the property is expected to decline by 0.9 percent in FY 2011 and by 0.5 percent in FY 2012, and then in FY 2013, the property value is expected to grow by 1.2 percent.
[b] Lot 171, Square 720 is classified as Commercial Property (Class 2) and therefore taxed at a rate of $1.65/$100 for the first $3 million of the assessed value, and $1.85/$100 for anything in excess of $3 million.
[c] PILOT payment adjusted to CPI for the Washington-Baltimore Metropolitan Statistical Area for all-urban consumers.
[d] The FY 2009 Fiscal Impact is the cumulative impact of the abatement starting FY 2008, which includes tax years 2008 and 2009. In 2008 the property was valued at $158.1 million and in 2009 at $151.1 million. It is assumed that the PILOT payments would equal $253,000 for these two years.

Additionally, the proposed legislation is intended to be retroactive to October 1, 2007. However, while the legislation sets the PILOT payment for FY 2009, the legislation does not set the PILOT

[1] The Union Station Redevelopment Corporation has sub-leased a portion on the property lease to Union Station Investco LLC (USI). USI leases and operates certain parts of Union Station and in turn has multiple retail sub-leases with individuals and owners of the retail establishments within Union Station, as well as a sub-sublease with Amtrak for offices and railroad operations. Testimony of Daniel Levy, Counsel to Union Station Investco, LLC, Before the Subcommittee on Transportation and Infrastructure, U.S. House of Representatives, July 22, 2008. Testimony available at:
http://transportation.house.gov/Media/File/Economic%20Development/20080722/LevyTestimony.pdf

payment for FY 2008. Therefore, the fiscal impact for that year is assumed to be $253,000 for purposes of this fiscal impact statement.

Finally, the proposed legislation would have an impact beyond the FY 2010 though FY 2013 budget and financial plan period. For example, between FY 2014 and FY 2024, the proposed legislation, if enacted, would further reduce property tax collections by a total of approximately $35.3 million, for a cumulative impact of $50.2 million. See table below.

Estimated Fiscal Impact FY 2014 – FY 2024*		
Year	**Fiscal Impact**	**Cumulative Impact**
FY 2014	$2,754,369	$17,666,876
FY 2015	$2,837,180	$20,504,056
FY 2016	$2,922,475	$23,426,531
FY 2017	$3,010,329	$26,436,860
FY 2018	$3,100,819	$29,537,679
FY 2019	$3,194,024	$32,731,703
FY 2020	$3,290,024	$36,021,728
FY 2021	$3,388,905	$39,410,633
FY 2022	$3,490,752	$42,901,385
FY 2023	$3,595,655	$46,497,040
FY 2024	$3,703,705	**$50,200,745**
Total FY 2014 – FY 2024	**$35,288,237**	

* It is assumed that property growth is constant through FY 2015, and then begins to grow a rate of 2 percent.