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 20, 2009

SUBJECT: Fiscal Impact Statement – "Kelsey Gardens Redevelopment Project Real Property Limited Tax Abatement Assistance Act of 2009"

REFERENCE: Bill Number 18-222 – As Introduced

Conclusion

Funds are not sufficient in the proposed FY 2010 through FY 2013 budget and financial plan to implement the abatement authorized by the proposed legislation. Provided that the project can secure a mortgage with the U.S. Department of Housing and Urban Development (HUD) in FY 2010, the proposed legislation would reduce the real property tax collections by $4,781 in FY 2010 and by $471,864 in the FY 2010 to FY 2013 budget and financial plan period.

Currently, the legislation does not condition the tax abatement on securing a mortgage from HUD. At this time, no such mortgage agreement exists. As it is written, the proposed legislation could permit perpetual tax abatement; if a mortgage is not secured the property would remain undeveloped but with a tax abatement. The language of the legislation requires additional clarification to prevent this outcome.

Background

The proposed legislation would amend D.C. Code, Title 47, Chapter 46 to add a new subsection that would freeze at the FY 2009 levels the property taxes for Kelsey Gardens Redevelopment Project, described as Lots 67 and 68, Square 421 in the Shaw neighborhood of Ward Two, provided that the project contains 54 units of affordable housing for residents making 60 percent or less of current Area Median Income (AMI).

The proposed tax abatement would expire at the termination or completion of the mortgage with HUD.

Financial Plan Impact

Funds are not sufficient in the proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation.

The proposed legislation would fix the real property tax obligation for the Kelsey Gardens Redevelopment Project at its FY 2009 level. The abatement would expire when the mortgage that would be secured from HUD is terminated. Currently no mortgage agreement exists between the Kelsey Gardens Property Company LLC, the owner of the Kelsey Gardens, and HUD. The fiscal analysis assumes that such a mortgage would be secured in FY 2010.

Table 1 outlines the impact of the proposed legislation on the District's budget and financial plan. The proposed legislation would reduce real property taxes by $4,871 in FY 2010 and by $471,864 during the FY 2010 through FY 2013 financial plan period.

Table 1 - Fiscal Impact in FY 2010 through FY 2013					
	FY 2010	FY 2011	FY 2012	FY 2013	Four Year Total
Value [2]	$11,047,140	$11,047,140	$11,047,140	$65,000,000[2]	
Commercial	$644,460	$644,460	$644,460	$3,395,846	
Residential	$10,402,680	$10,402,680	$10,402,680	$61,604,154	
Tax Obligation	$99,056	$99,056	$99,056	$457,250	$848,604
Commercial [3]	$10,634	$10,634	$10,634	$56,823	$99,351
Residential [4]	$88,423	$88,423	$88,423	$400,427	$749,254
Tax Obligation under B18-222	$94,185	$94,185	$94,185	$94,185	$376,741
Value of the Abatement (Negative Fiscal Impact)	$4,871	$4,871	$4,871	$363,065	$471,864

[1] Per the development plan filed by the D.C. Office of Planning, the groundbreaking will take place in FY 2010. It is assumed that the property would be reassessed to reflect the improvements in FY 2013. The development plan gives the estimated value of the completed project as $65,000,000.
[2] The assessed value of the property grew by 5 percent between FY 2009 and FY 2010. The assessed value is expected to remain constant at its FY 2010 level through FY 2011 and FY 2012.
[3] The commercial property tax rate is $1.65 per $100 of assessed value for the first $3,000,000 and $1.85 per $100 of assessed value for assessed value above $3,000,000.
[4] The residential property tax rate is $0.85 per $100 of assessed value.

The proposed legislation would continue to have an impact after the financial plan period. The developer indicated that they are pursuing a 40 year mortgage with HUD. Thus the proposed legislation could continue to have a negative fiscal impact through FY 2048. Assuming that the value of the property would grow at an average of 2 percent annually through the life of the mortgage, the proposed legislation would reduce property tax collections by an additional $19.8 million between FY 2014 and FY 2048, bringing the total impact to $20.3 million.

Table 2 - Fiscal Impact in FY 2014 thorough FY 2048		
	Annual Fiscal Impact	Cumulative Impact
FY 2014	$367,638	$839,501
FY 2015	$376,874	$1,216,375
FY 2016	$386,295	$1,602,670
FY 2017	$395,905	$1,998,575
FY 2018	$405,707	$2,404,282
FY 2019	$415,704	$2,819,986
FY 2020	$425,902	$3,245,888
FY 2021	$436,304	$3,682,192
FY 2022	$446,914	$4,129,106
FY 2023	$457,736	$4,586,842
FY 2024	$468,774	$5,055,616
FY 2025	$480,033	$5,535,649
FY 2026	$491,518	$6,027,167
FY 2027	$503,232	$6,530,398
FY 2028	$515,180	$7,045,578
FY 2029	$527,367	$7,572,946
FY 2030	$539,798	$8,112,744
FY 2031	$552,478	$8,665,222
FY 2032	$565,411	$9,230,633
FY 2033	$578,603	$9,809,237
FY 2034	$592,059	$10,401,296
FY 2035	$605,784	$11,007,080
FY 2036	$619,783	$11,626,863
FY 2037	$634,063	$12,260,926
FY 2038	$648,628	$12,909,553
FY 2039	$663,484	$13,573,037
FY 2040	$678,637	$14,251,674
FY 2041	$694,094	$14,945,768
FY 2042	$709,859	$15,655,627
FY 2043	$725,940	$16,381,567
FY 2044	$742,343	$17,123,910
FY 2045	$759,073	$17,882,983
FY 2046	$776,138	$18,659,122
FY 2047	$793,545	$19,452,667
FY 2048	$811,299	**$20,263,966**
Total Value of the Abatement beyond FY 2013	**$19,792,102**	