


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: November 23, 2010

SUBJECT: Fiscal Impact Statement – “2 M Street, N.E. Real Property Tax Abatement Act of 2010”

REFERENCE: Bill Number 18-1041, As Introduced

Conclusion

Funds are sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the provisions of the proposed legislation. However, the proposed legislation would have costs outside of the financial plan period, resulting in foregone revenues to the General Fund of approximately \$5.76 million between FY 2015 and FY 2021.

Background

The proposed legislation would provide a 10-year real property tax abatement for the developer of the property located on 2 M Street NE, legally known as Lot 258 in Square 672. The tax abatement would become effective starting October 1, 2014, so long as the 2 M Street, N.E. development project (“Project”) has received approval from the Federal Housing Administration for its application for a Section 221 (d)(4) mortgage insurance¹. The total amount of the tax abatement would be capped at \$5.76 million.

¹ This program is authorized by the National Housing Act (12 U.S.C. 17151(d)(4)) and insures mortgage loans to for-profit housing providers to facilitate the construction or substantial rehabilitation of multifamily rental or cooperative housing for moderate-income families, elderly, and the handicapped.

The Project is part of Phase One the New Communities'² Northwest One initiative in Ward 6. It will be a mixed-use development which will include:

- 314 units of residential housing of which 221 units will be market rate, 59 units will be affordable at 30 percent of Area Median Income (AMI),³ and 34 units at 60 percent of AMI;
- 4,000 square feet of new retail;
- parking garage; and
- a fitness center, with a pool and basketball court.

Construction on the Project is expected to commence in April 2011, and the total construction time is expected to be approximately 23 months.

Financial Plan Impact

Funds are sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the provisions of the proposed legislation.

However, the legislation would have costs outside of the financial plan period, as the property tax abatement becomes effective in FY 2015. The proposed legislation is estimated to reduce real property tax collections by approximately \$5.76 million between FY 2015 and FY 2021 (the year abatement cap is reached).

| Estimated Negative Fiscal Impact outside the financial plan period, FY 2015 – FY 2021 | | | |
|------------------------------------------------------------------------------------------|-----------------------------|----------------------------------|---------------------------------------------|
| | Estimated Assessed Value | Estimated Annual Abatement | Cumulative Abatement starting FY 2015 |
| FY 2015 | \$85,101,287 | \$803,980 | \$803,980 |
| FY 2016 | \$86,803,312 | \$820,179 | \$1,624,159 |
| FY 2017 | \$88,539,379 | \$836,703 | \$2,460,862 |
| FY 2018 | \$90,310,166 | \$853,557 | \$3,314,419 |
| FY 2019 | \$92,116,370 | \$870,748 | \$4,185,167 |
| FY 2020 | \$93,958,697 | \$888,283 | \$5,073,450 |
| FY 2021 | \$95,837,871 | \$906,169 | \$5,760,000* |

* The real property tax abatement cap of \$5.76 million is reached in FY 2021, as the total amount of real property taxes owed in FY 2021 would reach approximately \$6.0 million.

Assumptions:

- Property tax abatement begins in October 1, 2014.
- Property is completed in February 2013.
- New assessed value is based on the construction costs.

² The New Communities Initiative is a development program designed to improve the physical and social conditions of in four neighborhoods in Washington, DC: Barry Farm (Ward 8), Lincoln Heights/Richardson Dwellings (Ward 7), Northwest One (Ward 6) and Park Morton (Ward 1).

³ The 59 units will be replacement units for former residents Golden Rule and Temple Courts residences.

The Honorable Vincent C. Gray

FIS: B18-1041 "2 M Street, N.E. Real Property Tax Abatement Act of 2010," as Introduced

- Residential component is 90 percent and retail component is 10 percent of total assessed value (includes parking).
- Annual growth in assessed value is assumed to be 2 percent.