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

**Natwar M. Gandhi**
Chief Financial Officer

**MEMORANDUM**

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| **TO:** | **The Honorable Phil Mendelson**<br>**Chairman, Council of the District of Columbia** |
| **FROM:** | **Natwar M. Gandhi**<br>**Chief Financial Officer** |
| **DATE:** | **December 12, 2013** |
| **SUBJECT:** | **Fiscal Impact Statement – Residential Real Property Tax Relief Act of 2013** |
| **REFERENCE:** | **Bill 20-22, Draft Committee Print as shared with the Office of Revenue Analysis on December 5, 2013** |

## Conclusion

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill. The bill is estimated to reduce real property tax collections by approximately $6.6 million in FY 2014 and $32.5 million over the FY 2014 though FY 2017 budget and financial plan. Its implementation is subject to appropriation in an approved budget and financial plan.

## Background

The bill lowers[1] the existing cap on residential real property assessments from 10 percent to 5 percent. This means that on an annual basis, the taxable assessment of residential property cannot increase by more than 5 percent even if the market value of the property increases by a greater amount. The bill also eliminates the requirement that a homestead is assessed at a minimum of 40 percent of the market value of the home regardless of the cap.

Under current law, the taxable assessments of residential property cannot increase by more than 10 percent. This means during years of rapid growth residents see a tampered increased in their real property bills. It also means that real property taxes could continue increasing even when the market values are stagnant because properties caught under the 10 percent cap will continue to increase until the taxable assessments catch up with market assessments. As a result, real property tax bills will have less volatility than the market values, both on the up and down sides. The 5 percent cap will further reduce that volatility—taxes will increase by smaller amounts when the real property values are growing by more than 5 percent, but the catch up period will be longer.

[1] By amending D.C. Official Code § 47-864.

The 40 percent minimum on taxable assessments was adopted in 2009[2] by the Council and the Mayor. At the time, 23 percent of homesteads had a taxable assessment that fell below 40 percent of its assessed market value due to the interplay 10 percent cap and the homestead deduction[3] on owner-occupied properties.[4] Eliminating this floor, combined with a lower cap will result in a bigger divergence between the market assessments and taxable assessments, especially after periods of rapid growth.

**Financial Plan Impact**

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill. The bill is estimated to reduce real property tax collections by approximately $6.6 million in FY 2014 and $32.5 million over the FY 2014 though FY 2017 budget and financial plan.

Lowering the property tax cap from 10 percent to 5 percent will affect approximately 7,000 properties that are not currently subject to the cap because the property value has been growing at a rate of less than 10 percent but more than 5 percent annually. The new cap will restrict the growth in the taxable assessment for these properties to no more than 5 percent. Consequently, the amount the District collects in real property taxes will be reduced by approximately $6 to $7 million each year.

The elimination of the 40 percent minimum taxable assessment is expected to reduce real property tax collections by be $306,000 in FY 2014 and $6.3 million over the four year financial plan. In the first year, a smaller number of properties will be effected (an estimated 850), but this number is expected to increase significantly each year until about 23 percent of homesteads fall below the 40 percent threshold. As mentioned above, in 2009 when the Council and the Mayor established the 40 percent minimum, 23 percent of homesteads had a taxable assessment lower than 40 percent of market value.[5] It was estimated that the revenue loss was approximately $5 million each year because there was no minimum assessment. Under the bill, the District would eventually face a similar reduction in revenue.[6] The costs are detailed in the table below.

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[2] Fiscal Year 2010 Budget Support Act of 2009, effective March 3, 2010 (D.C. Law 18-111; 57 DCR 181) .

[3] The District offers a Homestead Deduction for residential property, which reduces a property's assessed value by $69,100 prior to computing the yearly tax liability. http://otr.cfo.dc.gov/page/homestead-deduction

[4] See p. 96 of the fiscal impact statement for the Fiscal Year 2010 Budget Support Act of 2009 http://app.cfo.dc.gov/services/fiscal_impact/pdf/spring09/FIS-B18-203FiscalYearFY2010BudgetSupportActof2009.pdf

[5] While property values are not growing as rapidly as they were during the housing boom, the cap is lower at 5 percent, so it is expected to have a similar interplay with the homestead deduction.

[6] See p. 96 of the fiscal impact statement for the Fiscal Year 2010 Budget Support Act of 2009 http://app.cfo.dc.gov/services/fiscal_impact/pdf/spring09/FIS-B18-203FiscalYearFY2010BudgetSupportActof2009.pdf

| Estimated Fiscal Impact of Bill 20-22, Residential Real Property Tax Relief Act of 2013, Fiscal Years 2014 - FY 2017 (in thousands) | | | | | |
|---|---|---|---|---|---|
| | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2017** | **4-Year Total** |
| Reduction in tax collections due to lowering the property tax cap from 10% to 5%. [1] | $6,300 | $6,458 | $6,638 | $6,857 | $26,253 |
| Reduction in tax collections due to elimination of 40% minimum assessment [2] | $306 | $1,000 | $2,000 | $3,000 | $6,306 |
| **Total Revenue Reduction** | **$6,606** | **$7,458** | **$8,638** | **$9,857** | **$35,559** |

**Table Notes:**

1. An additional 7,000 properties will be subject to the property tax cap. It is assumed the out years grow at the rate of all real property in the District.
2. The elimination of the minimum assessment level will affect 850 properties in FY 2014. It is expected that number of properties with a taxable assessment lower than 40 percent will reach about 23 percent of homesteads – the same level as in 2009 when the minimum was first implemented – and therefore the revenue impact will grow about $1 million per year until it reaches a level of about $5 million annually.