


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: December 2, 2010

SUBJECT: Fiscal Impact Statement – “District of Columbia Official Code Title 29 (Business Organizations) Enactment Act of 2010”

REFERENCE: Bill Number 18-500 – Draft Committee Print shared with OCFO on November 29, 2010

Conclusion

Funds are not sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the proposed legislation. The proposed legislation would have a negative fiscal impact of \$342,000 in FY 2011 and \$251,000 over the FY 2011 through FY 2014 budget and financial planning period.

Background

The proposed legislation would significantly revise and update the District of Columbia’s Business Organizations Code. The District’s current laws concerning business organizations, codified in Titles 29 and 33 of the D.C. Official Code date back to 1870, with major revisions in 1962. The proposed legislation would replace the business laws with the updated uniform law developed by the Uniform Law Commission. Title 29 of the D.C. Official Code would be completely revised to harmonize the law relating to business corporations, nonprofit corporations, professional corporations, general partnerships, limited partnerships, limited liability companies, general cooperative associations, limited cooperative associations, unincorporated nonprofit associations, and statutory trusts, and would provide provisions for mergers, interest exchanges, conversions, and domestications involving these entities.

Specifically, the proposed legislation would reorganize the Title 29 of the D.C. Official Code under the following 12 chapters, two of which, chapters 10 and 12, would expand the types of entities required or permitted to make filings into two new types, limited cooperative associations and statutory trusts:

Chapter 1- General Provisions
Chapter 2- Entity Transactions
Chapter 3- Business Corporations
Chapter 4- Nonprofit Corporations
Chapter 5- Professional Corporations
Chapter 6- General Partnerships
Chapter 7- Limited Partnerships
Chapter 8- Limited Liability Companies
Chapter 9- General Cooperative Associations
Chapter 10- Limited Cooperative Associations
Chapter 11- Unincorporated Nonprofit Associations
Chapter 12- Statutory Trusts.

Concerning the relationships between the business entities and the District Government, while most of the existing filing requirements would remain in effect, the proposed legislation would require a list of new filings, expand the requirements for certain filings, and introduce a new biennial reporting requirement for limited partnerships, as required of all other filing business entities.

The proposed legislation would authorize the Mayor to adopt rules, prescribe procedures, and impose civil fines and penalties, and would require the Mayor to establish rules regarding the fees for entity filings. Additionally, the proposed legislation would establish the Corporate Recordation Fund ("Fund") as a proprietary and enterprise fund¹ into which all the fees associated with the new Chapters 10 and 12, including expedited filing fees and the fees collected for the enforcement of these chapters, would be deposited.

In conforming amendments, in addition to those regarding the current Title 29, the proposed legislation would repeal Dissolution and Payment of Debts chapter of Title 33 of D.C. Official Code² and the Uniform Limited Partnership Act of 1987.³

The proposed legislation would take effect on January 1, 2012.

Financial Plan Impact

The proposed legislation would update and streamline the business law in the District. No changes are made to current filing fees with the exception of two new types of entities that are allowed to file. However, two new groups of establishments would be subject to filing fees under the proposed legislation. It is estimated that the fee collections from these new types of entities would amount to \$200,000 per year, starting with the effective date of the proposed legislation on January 1, 2012.

The main cost component of the proposed legislation is related to its implementation. Implementing the legislation would require changes to the online filing system the Department of Consumer and Regulatory Affairs (DCRA) is about to launch. This new online system would need an upgrade to incorporate filing requirements for the two new types of business entities, as well as other limited set of new and expanded filing requirements. The cost of the software enhancement is

¹ For the purposes of D.C. Official Code § 47-373(1)

² D.C. Official Code §§ 33-301 to 33-304

³ D.C. Law 7-49, D.C. Official Code §§ 33-201.01 to 33-211.07

estimated to be \$342,000 in FY 2011 and \$114,000 in FY 2012. DCRA would also need two FTEs to handle the new filing requirements of the proposed legislation. After the initial online system setup, the cost of the proposed changes would be covered by additional revenues. The proposed legislation would generate net positive revenues of \$85,000 per year starting in FY 2013. However, implementation costs would have to be incurred in the first two years; thus, the legislation would have a negative fiscal impact of \$342,000 in FY 2011 and \$251,000 over the FY 2011 through FY 2014 budget and financial planning period.

Estimated Fiscal Impact of B18-500 – District of Columbia Official Code Title 29 (Business Organizations) Enactment Act of 2010 FY 2011 – FY 2014					
	FY 2011	FY 2012	FY 2013	FY 2014	Four-Year Total
Personnel Costs ^a	\$0	\$110,983	\$110,983	\$110,983	\$332,948
Cost of non-personnel services ^b	\$0	\$4,017	\$4,017	\$4,017	\$12,052
Modification of the current online corporate filing system	\$342,000	\$114,000	\$0	\$0	\$456,000
Total Costs	\$342,000	\$229,000	\$115,000	\$115,000	\$801,000
Additional Revenues ^c	\$0	\$150,000	\$200,000	\$200,000	\$550,000
Net Fiscal Impact	-\$342,000	-\$79,000	\$85,000	\$85,000	-\$251,000

^a Two FTEs at DS 9/5 with annual salary of \$47,283 per person, and 17.36 percent benefits.

^b Furniture, equipment, computers, phones, and other services as necessary.

^c The proposed legislation would take effect on January 1, 2012. Therefore, the additional revenues in FY 2012 would be expected after the first quarter.