

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



Glen Lee
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Glen Lee
Chief Financial Officer

DATE: October 19, 2022

SUBJECT: Fiscal Impact Statement – Limited Equity Cooperative Property Tax
Assistance Amendment Act of 2022

REFERENCE: Bill 24-431, Committee Print as provided to the Office of Revenue
Analysis on October 17, 2022

Conclusion

Funds are not sufficient in the fiscal year 2023 through fiscal year 2026 budget and financial plan to implement the bill. The bill, which provides a tax exemption beginning in fiscal year 2024, has no cost in fiscal year 2023 but costs a total of \$5.9 million over the four-year financial plan.

The bill is subject to appropriations.

Background

Residential buildings owned by limited equity cooperatives (LEC) are currently eligible to receive an exemption from real property tax for five tax years. The bill makes changes to current legal definition of an LEC and allows an LEC to receive a continuing property tax exemption from tax year 2024, provided that at least 50 percent of the building's households have an income that does not exceed 80 percent of the United States Department of Housing and Urban Development's lower income definition. An LEC is defined under the bill as a cooperative that is required by a government agency, nonprofit organization, or by its articles of incorporation or organization to either limit the resale price of membership shares or limit the household income of the buyer; that requires a vote of at least 2/3 of its membership to amend its articles of incorporation or organization; and that mandates occupancy of all dwelling units by its shareholders as the shareholder's principal place of residence as a domiciliary of the District.

LECs would need to apply to the Office of Tax and Revenue (OTR) annually before being eligible for the property tax exemption and would be required to file annual use reports to maintain eligibility for the exemption.¹

Financial Plan Impact

Funds are not sufficient in the fiscal year 2023 through fiscal year 2026 budget and financial plan to implement the bill. The bill, which provides a tax exemption beginning in fiscal year 2024, has no cost in fiscal year 2023, but costs a total of \$5.9 million over the four-year financial plan.

There are almost 100 cooperatives in the District that are thought to be organized as limited equity cooperatives and would be assumed to meet all the bill's qualifications to be eligible for the tax exemption, including having at least 50 percent of households meeting the bill's income requirements. A few of the properties have existing tax exemptions which are likely to expire beginning in fiscal year 2024. The estimated real property tax revenue forgone through the bill's exemption is approximately \$1.7 million annually, beginning in fiscal year 2024.

OTR will need to review the eligibility of tax exemption applications from each LEC annually, including verifying the cooperative meets the bill's LEC definition and verifying that at least 50 percent of its residents qualify as low income. It is estimated that OTR will review income verification materials for up to 2,500 units. OTR requires two new Program Specialists to process these tax exemption applications and annual reviews.

Limited Equity Cooperative Property Tax Assistance Amendment Act of 2022 (\$ in thousands)					
	FY 2023	FY2024	FY 2025	FY2026	Total
Property Tax Revenue Loss	\$0	\$1,681	\$1,732	\$1,784	\$5,197
OTR Personnel ^a	<u>\$0</u>	<u>\$220</u>	<u>\$224</u>	<u>\$228</u>	<u>\$672</u>
Total Cost	\$0	\$1,901	\$1,956	\$2,012	\$5,869

Table Notes

a) Two Program Specialists at Grades 11/12. Includes fringe benefits.

¹ Pursuant to D.C. Official Code § 47-1007.