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: **February 27, 2009**

SUBJECT: **Fiscal Impact Statement – "NoMA Residential Development Tax Abatement Act of 2009"**

REFERENCE: **Bill 18-18**

Conclusion

Funds are not sufficient in the FY2009 through FY2012 budget and financial plan to implement the abatement authorized by the proposed legislation. The proposed legislation would allow the Mayor to authorize up to $5 million per year starting FY2009, and up to $20 million in the FY2009 to FY2012 budget and financial plan as real property tax abatement to new housing developments in the NoMA Business Improvement District. Given the pipeline of residential projects in this area, if implemented, the proposed legislation would result in a negative fiscal impact of approximately $6.6 million on the FY2009 through FY2012 budget and financial plan.

Fiscal Impact on the FY2009-FY2012 Budget and Financial Plan B18-18 – NoMA Residential Development Tax Abatement Act of 2009					
	FY2009	FY2010	FY2011	FY2012	Total FY2009-FY2012
Total Fiscal Impact	$0	$416,880	$1,934,696	$4,262,752	$6,614,328

In accordance with the federal and District's Anti-Deficiency laws[1], the Mayor would be required to identify funds to support the proposed abatement should he choose to exercise the proposed authority.

[1] 31 U.S.C.A §1341 (2000); D.C. Code §47.355.01 *et seq.* (2003).

Background

The proposed legislation would amend Title 47 of D.C. Official Code to provide real property tax abatement for all "eligible" new housing developments located in portions of Ward 5 and 6, known as the NoMA Business Improvement District.[2] Eligible properties are defined as all property classified, in whole or in part, as Class 1 or Class 2 property, with a minimum of ten newly built residential units.[3] The abatement would be offered to those projects that: 1) obtain a final building permit for the mechanical, electrical, plumbing, heating, ventilation, and air-conditioning systems for the building's superstructure after January 1, 2008 or sufficiently document the beginning of construction, as detailed in the legislation, and 2) submit the application for the tax exemption certification by December 31, 2012.

The proposed legislation would impose two separate caps on the program and either one could apply to cap the program. The proposed legislation would cap 1) the amount of real property taxes that could be abated to $5 million a year, up to $50 million over the entire program, and/or 2) the maximum number of residential units that could receive the abatement at 3,000.

Under the proposed legislation, the tax abatement would be calculated as $1.50 per residential Floor Area Ratio (FAR) square foot, multiplied by the building's total residential FAR as certified by the project architect and the Mayor.[4] The tax abatement would expire at the end of the 10th tax year.

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[2] "Eligible Area" means and includes those portions of Wards 5 and 6 which comprise the geographic area defined by a line that starts at the center of the street at the intersection of Massachusetts Avenue, N.E., and 1st Street, N.E.; continuing north along the center line of 1st Street, N.E., to the center line of H Street, N.E.; continuing east along the center line of H Street, N.E., to the center line of 2nd Street, N.E.; continuing north along the center line of 2nd Street, N.E., to the center line of K Street, N.E.; continuing east along the center line of K Street, N.E., to the center line of 3rd Street, 10 N.E.; continuing north along the center line of 3rd Street, N.E. (and including Square 11 0774, Lot 0058), to the center line of M Street, N.E.; continuing east along the center line of M Street, N.E., to 4th Street, N.E.; continuing along the center line of 4th Street, N.E., to the center line of Florida Avenue, N.E.; continuing northwest along the center line of Florida Avenue, N.E., until it crosses the WMATA rail line; continuing northeast along the boundary of the WMATA rail line until it crosses R Street, N.E.; continuing west along the center line of R Street, N.E., to Eckington Place, N.E.; continuing south along the center line of Eckington Place, N.E., to the center line of Q Street, N.E.; continuing west along the center line of Q Street, N.E. (and including Square 3519, lots 0043, 0063, and 0070), to the center line of North Capitol Street (but excluding Square 3516, lots 0104 through 0114 and 0118 through 0133, and 0807); continuing south along the center line of North Capitol Street to the center line of Eye Street N.W.; continuing west along the center line of Eye Street, N.W., to the center line of New Jersey Avenue, N.W. continuing southeast along the center line of New Jersey Avenue, N.W., to the center line 1 of Massachusetts Avenue, N.W., continuing southeast along Massachusetts Avenue, 2 N.W., to the center line of 1st Street, N.E. (the starting point). See attached map.

[3] In mixed used projects or properties classified as Class 2, only residential units would be eligible to receive the abatement.

[4] Floor Area Ratio is defined as the total building square footage (building area) divided by the site size square footage (site area).

Financial Plan Impact

The proposed legislation would allow the Mayor to authorize up to $5 million per year starting FY2009, and up to $20 million in the FY2009 to FY2012 budget and financial plan as real property tax abatement to new housing developments in the NoMA Business Improvement District. However, based on an assessment of residential development patterns in this area, the estimated fiscal impact would be approximately $6.6 million over the FY2009-FY2012 budget and financial planning period. Table 1 below presents the detailed calculation of the cost of Bill 18-18 to the four-year financial plan. [5]

Table 1. Estimated Impact to the Budget and Financial Plan of B18-18, FY2009-FY2012
NoMA Residential Development Tax Abatement Act of 2009

	FY2009	FY2010	FY2011	FY2012	FY2009-FY2012
Total New Completed Residential Units Expected[a]	0	212	1,010	1,575	2,797
Total New Residential Square Footage	0	212,000	1,009,900	1,550,000	2,771,900
Value of Abatement Under B18-18[b]	$0	$318,000	$1,832,850	$4,157,850	$6,308,700
Total Administrative Costs[c]	$0	$98,880	$101,846	$104,902	$305,628
Total Fiscal Impact	**$0**	**$416,880**	**$1,934,696**	**$4,262,752**	**$6,614,328**

Source: Office of Revenue Analysis Calculation

[a] Data on the number and square footage of planned residential projects and the estimated completion data were provided by the NoMA Business Improvement District. It is assumed that a project would become eligible for the real property tax abatement in the fiscal year the project is expected to be completed. It is worth noting that the expected completion dates are estimates and the number of projects that is actually completed will depend on future market conditions.

[b] The value of the property tax abatement is calculated as $1.50 per residential square foot.

c The use of residential FAR to calculate the real property tax abatement requires manual implementation. OTR would need to hire 1 FTE at $56,000 for billing, adjustments, and follow-up in the Real Property Tax Administration and .5 FTE at $35,000 in assessments for the appraisals of additional property units. OTR also estimates incidentals of $5,000 for a total operating impact of $96,000 as of FY 2009. An inflationary adjustment of 3 percent was applied based on the Washington DC Area Consumer Price Index calculated by the Bureau of Labor Statistics (http://www.bls.gov/ro3/fax_9156.htm).

Between FY2010 and FY2012, an estimated 2,797 residential units, or 2.8 million residential square feet, are expected to be constructed. During this period, the proposed abatement would reduce the estimated tax liability by a total of $6.3 million through the FY2009 – FY2012 budget and financial plan period.

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[5] For the purposes of this analysis, it is assumed that new residential development would become eligible for the real property tax abatement in the fiscal year it is expected to be completed.

In addition, if authorized, the proposed abatement would require manual implementation by the Office of Tax and Revenue, resulting in a total operating impact of $98,880 in FY2010 and $305,628 in the FY2009 to FY2012 budget and financial plan period.[6]

[6] The use of residential FAR to calculate the real property tax abatement requires manual implementation. OTR would need to hire 1 FTE at $56,000 for billing, adjustments, and follow-up in the Real Property Tax Administration and .5 FTE at $35,000 in assessments for the appraisals of additional property units. OTR also estimates incidentals of $5,000 for a total operating impact of $96,000 in FY2009. A percent 3 percent inflationary adjustment was applied based on the Washington DC Area Consumer Price Index (http://www.bls.gov/ro3/fax_9156.htm).

Appendix - ***The potential cost of the residential abatement proposed under B18-18 beyond the FY2009-FY2012 budget and financial planning period.***

Additionally, the abatement would continue to have a fiscal impact beyond FY2012. Between FY2013 and FY2022, it would reduce the total real property tax collections by an additional $38.3 million (See Table 2 below).

Table 2. Estimated Impact to the Budget and Financial Plan of B18-18, FY 2013-FY 2022 NoMA Residential Development Tax Abatement Act of 2009	
	Value of Abatement Under B18-18 [a]
FY2013	$ 4,462,350
FY2014	$ 4,462,350
FY2015	$ 4,462,350
FY2016	$ 4,462,350
FY2017	$ 4,462,350
FY2018	$ 4,462,350
FY2019	$ 4,462,350
FY2020	$ 4,144,350
FY2021	$ 2,629,500
FY2022	$ 304,500
Total	**$ 38,314,800**

[a] The value of the abatement is constant through the FY2013-FY2019 period because the maximum number of 3000 residential units eligible for abatement is reached in 2013. The value of the abatement begins to decline in FY2020 and beyond, as the abatement expires at the end of the 10th tax year.

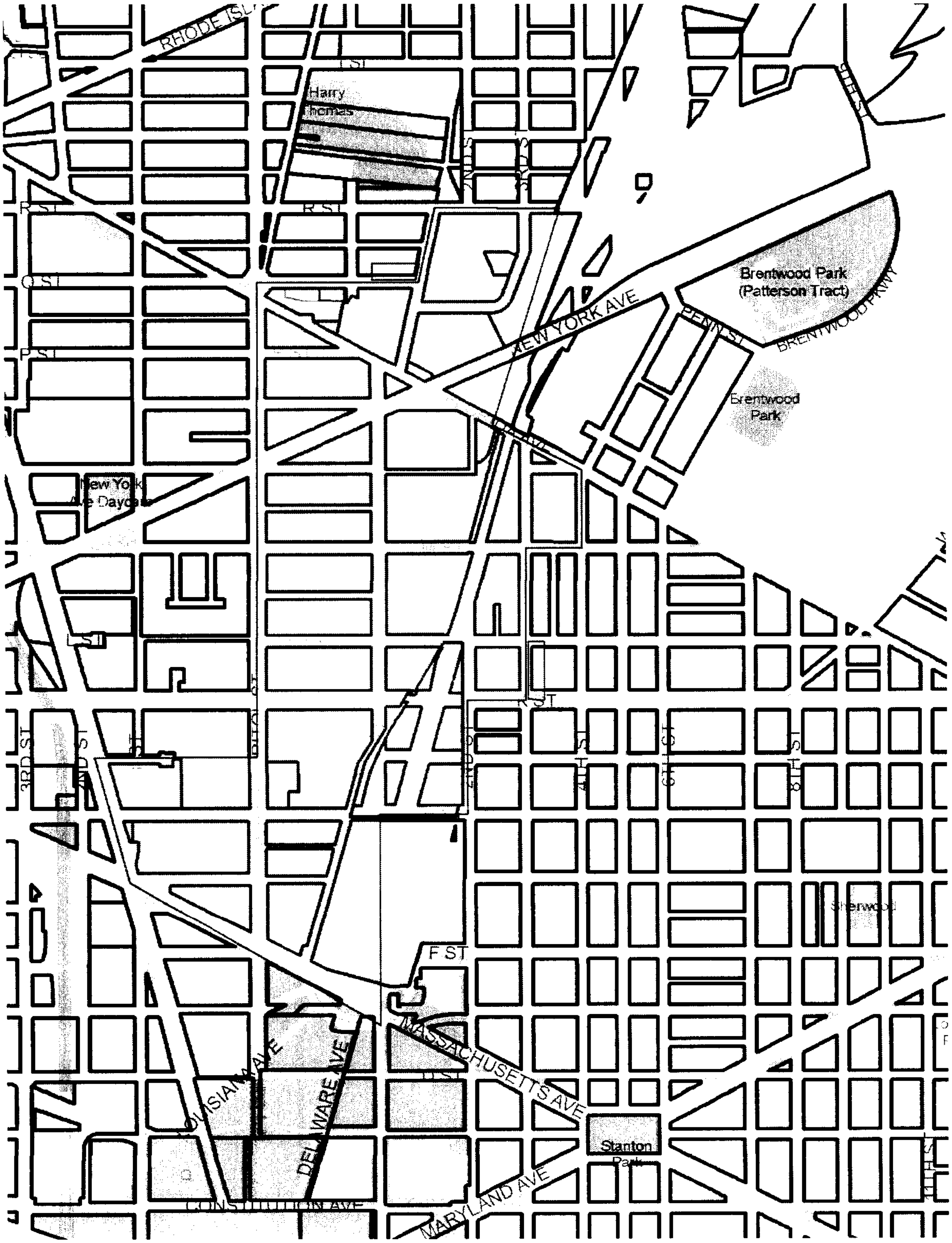

Figure 1 - Map of the area included in B18-18