**Jeffrey S. Dewitt**
Chief Financial Officer

**MEMORANDUM**

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| **TO:** | **The Honorable Phil Mendelson**<br>**Chairman, Council of the District of Columbia** |
| **FROM:** | **Jeffrey S. Dewitt**<br>**Chief Financial Officer** |
| **DATE:** | **March 4, 2014** |
| **SUBJECT:** | **Revised Fiscal Impact Statement – Senior Citizen Real Property Tax Relief Act of 2013** |
| **REFERENCE:** | **Bill 20-318, Committee Print as amended on March 4, 2014** |

*This revised fiscal impact replaces the one issued for bill 20-318 on January 7, 2013. The revision reflects an amendment to the bill which increases the continuous residency requirement to 20 years, and limits the property relief to seniors over the age of 70 with an adjusted income of $60,000 or less, and an annual dividend and interest income of less than $12,500.*

## Conclusion

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill. The bill will reduce the District's real property tax revenue by approximately $8.2 million in FY 2014 and $34.9 million over the FY 2014 though FY 2017 budget and financial plan. The bill's implementation is subject to appropriation in an approved budget and financial plan.

## Background

The bill exempts D.C. homeowners from real property taxes if they have an adjusted gross income of $60,000 or less annually, are at least 70 years old, and have owned a residence in the District for 20 consecutive years or longer, and reported income from interest and dividend earnings less than $12,500. In order to claim the exemption, the homeowner must file an application with the Office of Tax and Revenue (OTR).

## Financial Plan Impact

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill. The estimated cost to implement this exemption is approximately $8.2 million in FY 2014 and $34.9 million over the FY 2014 though FY 2017 budget and financial plan.

The bill will exempt approximately 4,362 residents who currently meet the proposal's age, income and residency requirements.[1,2] The average real property taxes owed by seniors in the District are approximately $1,200. Therefore, the estimated revenue reduction as a result of the exemption is $5.1 million in FY 2014 and $21.7 million over the four-year financial plan.

Additionally, OTR will require resources to implement the exemption. Specifically, OTR will need one exemption specialist and a one-time cost of $50,000 for software modifications. The costs are detailed in the table below.

| Estimated Fiscal Impact of Bill 20-318, Senior Citizen Real Property Tax Relief Act of 2013, Fiscal Years 2014 - FY 2017 | | | | | |
|---|---|---|---|---|---|
| | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2017** | **4-Year Total** |
| Number eligible [1] | 6,819 | 6,887 | 6,956 | 7,026 | - |
| Average Benefit [2] | $1,158 | $1,192 | $1,228 | $1,265 | - |
| Reduction in tax collection | $8,143,605 | $8,471,792 | $8,813,205 | $9,168,378 | $34,596,980 |
| | | | | | |
| Personnel costs [3] | $38,136 | $79,322 | $82,495 | $85,795 | $285,748 |
| Programming costs [4] | $50,000 | $0 | $0 | $0 | $50,000 |
| Total operating costs | $88,136 | $79,322 | $82,495 | $85,795 | $335,748 |
| | | | | | |
| **Total Negative Fiscal Impact** | **$8,231,741** | **$8,551,114** | **$8,895,701** | **$9,254,173** | **$34,932,728** |

**Table Notes:**

1. Based on the number of residents claiming the senior citizen tax credit (18,265) pro-rated by the probability that these individuals have resided in the District for 20 years or longer.
2. Calculated by dividing the total real property taxes paid by seniors claiming the real property tax credit in TY12 ($21.1 million) by the number of claimants (18,265).
3. Includes salary plus fringe benefits for one OTR exemption specialist at grade 11, step 5. It is assumed this FTE is hired for 6 months in FY 2014.
4. OTR would incur a one-time programming cost to make the necessary software modification to implement the exemption.

[1] It is not possible to determine the length of time an individual has resided in the District from their tax records; therefore, ORA estimated the likelihood of an individual in this age range to move using data from the U.S. Census Bureau. It is important to note from an administrative stand point it will be difficult to verify the bill's residency requirement.

[2] The interest and dividend income limitation is not likely to be binding. In TY 2011, on average people with incomes less than $50,000 earned approximately $3,000 in income and dividends combined. 99.6 percent of all District taxfiler with income under $60,000 earned dividend and interest income under $12,500.