PUBLIC HEARING ON

BILL 17-020, "COMMERCIAL REAL PROPERTY TAX CREDIT ACT OF 2007"

Before the

Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

February 7, 2007, 1:00 p.m.
Room 412
John A. Wilson Building

Testimony of
Robert Ebel and Sherryl Hobbs Newman
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning Chairman Evans and members of the committee. I am Robert Ebel, Deputy Chief Financial Officer for Revenue Analysis, and I am joined by my colleague Sherryl Hobbs Newman, Deputy Chief Financial Officer for Tax and Revenue. We are pleased to present testimony on Bill 17-020, the “Commercial Real Property Tax Credit Act of 2007.”

The proposed legislation would amend Chapter 8 of Title 47 of the District of Columbia Official Code to provide a cap on real property tax increases that would otherwise affect commercial and non-owner-occupied residential property. Specifically, the proposed legislation would add a new section (§ 47-817.01) to limit the amount of real property tax increases for qualifying properties to 10% of the previous year’s tax, starting in fiscal year 2007. There is no provision in current District law limiting increases in property tax for commercial and non-owner-occupied residential property.

This proposed act would result in a significant revenue loss for the District and would channel most of the benefits to large commercial buildings.

The commercial property tax is a significant source of revenue for the District. As indicated in the fiscal impact statement, the proposed legislation would result in reduced revenue to the District of $228.9 million in FY 2007 and $1.2 billion in the FY 2007 through FY 2010 period.

The significant tax relief and resulting large revenue reduction to the District provided by the proposed legislation would flow primarily to large commercial office buildings (LCOBs) – structures with elevators whose primary use is for office space. In FY 2007, there are 561 LCOBs in the District.

LCOBs are a very important source of tax revenue for the District of Columbia and have been a stable and growing source of real property tax revenue. This is particularly important given the proliferation of property tax relief mechanisms for residential real property. In 2006, LCOB properties accounted for more than 70% of total Class 2 (commercial) real property tax revenue, more than 43% of all real property tax revenue, and 10% of total local general fund revenue.

Under the provisions of the proposed legislation, 90% of these 561 properties would be capped by the 10% limit. Of the total estimated $172.1 million revenue loss to the District from commercial properties, 70% would flow to LCOBs.[1] A majority of these properties are owned by limited liability corporations (LLCs), large corporations and associations, real estate investment trusts (REITs), and national and international investors. In other words, these properties would not be considered "small businesses." The average 2007 assessment value for a LCOB that would be capped under the proposal is $64.1 million. This translates into a real property tax bill in 2007 of $1.2 million per property.

In summary, the proposed legislation would further erode the District's property tax base by cutting into a significant source of revenue and would provide the majority of property tax relief to a relatively small number of large corporations.

This concludes our testimony. We will be pleased to address questions that you may have.

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[1] The fiscal impact statement indicates that the estimated revenue loss will be $228.4 million in 2007. This higher figure includes revenues from qualifying Class 1 properties (i.e. non-owner-occupied residential properties).