PUBLIC ROUNDTABLE ON
BILL 15-883, "JEFFERSON ON THE HILL ECONOMIC DEVELOPMENT ACT OF 2004"

Before the

Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

July 14, 2004, 1:00 p.m.
Room 120, John A. Wilson Building

Testimony of
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Good afternoon, Chairman Evans, and members of the Committee on Finance and Revenue. I am Daniel Black, deputy chief financial officer for the Office of Tax and Revenue (OTR). I am pleased to present testimony today on Bill 15-883, the "Jefferson on the Hill Economic Development Act of 2004."

This bill concerns property located in Square 1045, Lots 132 through 137, currently owned by Father Flanagan's Boys' Home. The property consists of two vacant lots and four existing buildings, which OTR understands were to be used as group homes but are currently unoccupied. All real property taxes on the six lots are paid and current.

Bill 15-883 would provide fee waivers and tax exemptions for a planned mixed use development on Capitol Hill in Southeast Washington, called the "Jefferson on the Hill Project." The project is to consist of an approximately 240-unit apartment house; 45,000 square feet of retail space; a garage for approximately 400 to 500 cars, and other ancillary improvements. The bill defines the Jefferson on the Hill Project as the "financing, refinancing, or reimbursing of costs incurred for the acquisition, construction, installation, equipping and operation of the mixed-use apartment house and garage."

To facilitate the project, the bill proposes that real property taxes on the subject parcels be exempted for 10 years, beginning with the tax year a certificate of occupancy is issued for the residential portion of development. From this statement, OTR assumes the 10-year exemption from real property taxes would cover only the apartment house, rental office and parking garage, and that the exemption would not extend to other, outside commercial operations that might be constructed on the property, such as office space or retail establishments. Should the Council choose to enact this bill, we would urge the Council to restrict the property tax exemption to the residential portion of this valuable property.

In addition, the bill provides for exemption from sales and use taxes for personal property "to be incorporated in or consumed in the course of the development, construction, equipping, furnishing, and operation of the Jefferson on the Hill Project, whether or not the sale, material, rental or nature of the property is incorporated as a permanent part of the real property."

The bill also would exempt the property, and any improvements thereon, from deed and transfer taxes and fees, with no apparent limit on the number of such exemptions that may occur should the property change hands in the future. OTR suggests that it would be financially and administratively more feasible if the bill limited the deed and transfer tax relief to the initial property transfer only – that is, from the current owner, Father Flanagan's Boys' Home, to the purchaser, JPI Apartment Development, LP.

Finally, subsection (e) of the bill states that the amount of taxes, fees and deposits abated or exempted shall be in addition to any other tax relief afforded to the Jefferson on the Hill Project, and that the aggregate of the relief provided under Bill 15-883 shall not exceed a certain amount. However, the amount is not specified. In addition, the section, as currently written, applies only to real property and sales taxes. OTR recommends the bill be amended by: (1) adding a specific monetary limit on the amount of tax relief to be granted to state that the property and all sales, transfers and other transactions at the property will revert to taxable status at the end of the period, and (2) striking the phrase "Subsections 3(c) and 3(d)" and replacing it with "section 3". This will ensure that all tax exemptions under the bill, including waivers of deed and transfer taxes and fees, are factored into the amount of aggregate relief.

The OCFO's estimates on the fiscal impact of the waivers and exemptions proposed for this development project are best guesses, because the structures described do not yet exist, and there are no estimated values provided in the bill. However, assuming the owner/developers of the project are able to take full advantage of the tax exemptions for the whole of TY 2004 and beyond, the Office of Revenue Analysis estimates that foregone revenue will be $630,000 in fiscal year 2005 and $2.67 million in FY 2005 through FY 2008. Tax exemptions associated with the deed transfer and deed recordation will result in one-time foregone revenue of approximately $280,000 in FY 2005. Foregone revenue as a result of the sales and use tax exemptions cannot be estimated at this time.

Thank you, Mr. Chairman, for the opportunity to comment on this bill. We would be happy to answer any questions you or other councilmembers might have at this time.

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