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

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Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

TO:	**The Honorable Phil Mendelson** **Chairman, Council of the District of Columbia** **The Honorable Jack Evans** **Councilmember, Council of the District of Columbia** **The Honorable Elissa Silverman** **Councilmember, Council of the District of Columbia**
FROM:	**Jeffrey S. DeWitt** **Chief Financial Officer** Jeffrey S. DeWitt
DATE:	**October 26, 2016**
SUBJECT:	**"Food, Environmental, and Economic Development in the District of Columbia Amendment Act of 2016"**
REFERENCE:	**Bill 21-836**

Findings

The proposed expansion of the District's supermarket tax incentive program is not necessary to incent supermarkets to open in food deserts. The specific expansion areas outlined in the legislation do not meet the U.S. Department of Agriculture definition of food deserts. More generally, while the proposed tax incentives will enhance the profitability of supermarkets that chose to locate in the proposed new areas, the proposed exemptions are not necessary to entice supermarkets to locate there.

Background

The proposed legislation amends the District's Supermarket Incentive programs by adding two census tracts to the areas currently eligible for this as-of-right exemption. The two new areas would allow one planned supermarket in Ward 4 that has already received PUD approval[1] and one supermarket in Ward 5 that is already open to claim these benefits. The stated purpose of this change is "incentivizing supermarkets to locate or remain in food deserts and provide fresh food options to the residents of the District of Columbia."

[1] The Zoning Commission approved case number 15-29 Jemal's Gateway DC, LLC – Consolidated PUD & Related Map Amendment @ Square 2960 on September 12, 2016.

Supermarket tax incentives were originally introduced in 1988 to encourage supermarkets to locate in underserved areas[2] by providing a 5-year exemption from real property tax and from certain license fees.

In 2000, the Council changed the duration of the real property and license fee exemption to 10 years and added a personal property tax exemption and a sales and use tax exemption on building materials used to construct or substantially renovate a qualified supermarket. The Council also modified the eligibility requirement by replacing underserved areas with specific priority development areas defined by the National Capital Revitalization Act of 1998.

In 2010, the Council modified the geographic area of eligibility to mirror Federal historically underutilized business zones[3] and to add specific census tracts.

The proposed legislation expands the geographic boundaries of the supermarket tax incentives program by adding census tracts 16 and 94 to the definition of eligible area.

Financial Analysis

The Exemptions and Abatements Information Requirements Act requires the analysis provided by the Office of Economic Development Finance (EDF) to contain certain information, provided below.

A separate fiscal impact statement will be prepared on the proposed legislation.

<u>Terms of the Exemption or Abatement</u>

The legislation provides the following tax exemptions to qualified supermarkets located in the newly eligible areas:[4]

1) 10-year real property tax exemption;
2) 10-year exemption from license fees;
3) 10-year personal property exemption; and
4) Sales and use tax exemption on building materials .

<u>Annual Proposed Value of the Exemption or Abatement</u>

The annual value of these exemptions to a newly constructed or renovated supermarket varies widely depending on the size and location of the supermarket. As an example, in fiscal year 2015, the annual value of the real property tax to the 17 supermarkets receiving the exemption ranged from $33,859 to $412,040[5]. For newly constructed supermarkets, the value will be higher in the

[2] Underserved area was defined as "an area of no more than one square mile within the District having a ratio of less than 2 supermarkets per 10,000 residents or having less than 1 supermarket."
[3] Historically underutilized business zone (HUBZone) means any area located within 1 or more: qualified census tracts, qualified nonmetropolitan counties, lands within the external boundaries of an Indian reservation, redesignated areas, or base closure areas. (Qualified census tracts are areas that have 50 percent of households with incomes below 60 percent of the Area Median Gross Income or have a poverty rate of 25 percent of more.)
[4] D.C. Official Code §47-3802(a) provides the same tax incentives to qualified restaurants or retail stores. However, these entities are not eligible for an exemption until the fiscal effect is included in an approved budget or financial plan.
[5] Fiscal year 2015 Unified Economic Development Report, DC Office of the CFO (http://cfo.dc.gov/node/1150927)

initial year, due to the exemptions that are applicable to the sales and use taxes on building materials.

<u>Summary of the Proposed Community Benefits</u>

The legislation proposes to expand incentives to grocery stores in certain communities and provide fresh food options to District residents.

<u>Financial Analysis for a person(s) or entity(s) that cannot be readily identified</u>

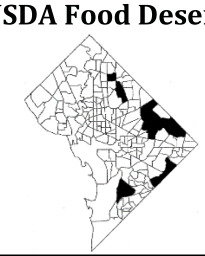
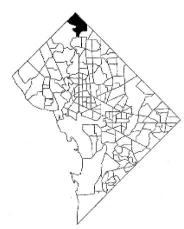
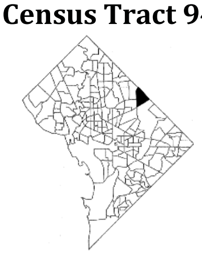
Review and analysis of the public policy goal intended to be addressed, including whether the exemption or abatement is appropriately targeted and likely to achieve the intended goal.

There are two stated purposes of the legislation:

1) to incentivize supermarkets to locate or remain in food deserts; and
2) to provide fresh food options to the residents of the District.

<u>Locate in Food Deserts</u>

The U.S. Department of Agriculture (USDA) defines “food deserts” for urban areas as census tracts that are both low income[6] and low access[7]. Neither of the proposed census tracts meets both the definition of low income and low access, as shown in the table below.

	USDA Food Deserts 	**Census Tract 16** 	**Census Tract 94** 
Median Family Income	Less than $85,600, <u>or</u> 20% or more in poverty	$163,125 (1.6% in poverty)	$83,938 (4.9% in poverty)
People Living 1 Mile or More from a Supermarket[8]	More than 500 people, <u>or</u> 33.3% of more of residents	9 people (0.2%)	0 people (0.0%)

[6] The USDA defines a low income census tract as one with either (a) a poverty rate of 20 percent or greater, or (b) a median family income at or below 80 percent of the greater of the statewide ($82,791 in 2014) or metropolitan area median family income ($107,000 in 2014). Income data in the table above is from 2014, the most recent year for which census tract and area median income data was available.

[7] The USDA defines low access tracts as on one with either (a) greater than 500 people living 1 mile or more from a supermarket, or (b) greater than 33.3percent of the people live 1 mile or more from a supermarket. Access information above is from 2010, the most recent data available from the USDA.

[8] The USDA also provides access data at one-half mile or more from a supermarket. Census tract 16 has 2,494 people (or 63 percent) living greater than one-half a mile from a supermarket, while census tract 94 has 3,820 persons (or 92 percent).

Provide Fresh Food Options

Whether a supermarket will chose to locate or stay in census tracts 16 and 94 depends on numerous market factors. Research indicates that supermarket site selection depends primarily upon income of the nearby population, distance and type of competing food markets, and access for customer and supplier vehicles. However, supermarkets succeed on volume and operate on low profit margins, with a national average of 1.5% after taxes[9]. Any reduction in operating expenses, such as those included in the proposed exemptions, could have a meaningful impact on profit.

[9] Supermarket Facts from the Food Marketing Institute (the trade association for food retailers), at www.fmi.org/research-resources/supermarket-facts.