PUBLIC HEARING ON

BILL 17-180, THE "GEORGIA COMMONS REAL PROPERTY TAX EXEMPTION AND ABATEMENT ACT OF 2007"

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

May 8, 2007, 11:00 a.m.
Room 120, John A. Wilson Building

Testimony of
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Good morning, Chairperson Evans and members of the Committee on Finance and Revenue. I am Martin A. Skolnik, Director of the Real Property Tax Administration in the Office of Tax and Revenue (OTR). I am pleased to present testimony on Bill 17-180, the "Georgia Commons Real Property Tax Exemption and Abatement Act of 2007."

My testimony today is based on the version of this bill introduced by Chairman Gray at the request of the Mayor. My testimony does not cover any provisions of the legislation that were not part of the introduced bill.

Georgia Commons is a condominium regime consisting of a mixed-use residential ("housing element") and retail project ("retail element"), located on lots 848 and 849 in Square 2906 (the "project").

The bill would add a new D.C. Code section 47-1075 that will:

- Exempt the <u>housing and retail elements</u> of the project from real property taxes for a certain period of time, and
- Thereafter, provide a real property tax credit annually of $183,000 for the housing element and $145,148 for the retail element.

The annual credits will not exceed the annual real property taxes.

Pre-Certification of Occupancy Exemption

The real estate tax exemptions apply from the date the ownership of Georgia Commons is transferred from the National Capital Revitalization Corporation to a private owner. They end on the first day of the half tax year immediately following the date on which certificates of occupancy (COOs) have been issued for all of the housing units in the housing element and for all rentable space in the retail element, respectively. We understand construction is expected to last three years.

Post-Certificate of Occupancy Real Property Tax Credit

The annual real property tax credits for both housing and retail begin on the same day that the real property tax exemptions end.

The credit on the housing element ends on the last day of the half tax year immediately following the later of:

- The date on which the housing element is no longer subject to the lien of a mortgage loan insured by the Federal Housing Administration (FHA), or
- The date on which the housing element is no longer multi-family rental housing.

The annual credit on the retail element ends on the last day of the half tax year immediately following the earlier of:

- The passage of 25 years, or
- The date on which the retail element is no longer used for commercial or retail space.

OTR has the following concerns with the proposed bill. First, the bill fails to define the number of multi-family housing apartments that qualify as affordable housing units. Second, the bill now provides that the real property tax credits for the housing element end on the later of the termination of the FHA mortgage or the termination of the multi-family rental feature. This could mean that real property tax credits could be paid in perpetuity. The Chief Financial Officer's (CFO) fiscal impact statement (FIS) dated April 3, 2007, was based on earlier information that the credits for the housing element would end on the <u>earlier</u> of:

- 40 years, or
- The date on which the housing is no longer subject to an FHA mortgage.

Thus, this bill may cost more.

Third, OTR has serious concerns with the bill's granting of real property tax credits on the retail element of the project. The District has historically not granted such exemptions or credits for real property. One reason is that a real property tax credit may reduce the amount of rent the retail businesses in the retail element have to pay the owner, while other competitive businesses outside of the retail element of the project would not receive this benefit.

The Council recently reaffirmed this policy with respect to another Georgia Avenue mixed-use project. Specifically, before enacting the "Square 2910 Residential Development Stimulus Emergency Act of 2006," the Council deleted a provision from the original bill that would have provided an exemption for the commercial portion of the Square 2910 project.

Fourth, there is no way OTR can monitor the filing of the COOs, the expiration of the mortgage lien from FHA, and other events in the development of this project. We recommend that, for purposes of D.C. Official Code § 47-831(b), the private owner have a duty to inform OTR when the housing and retail elements are no longer entitled to exemption or credit and to annually inform OTR about the current eligibility status of the exemption or credit with language similar to that enacted in the previously mentioned "Square 2910 Residential Development Stimulus Emergency Act of 2006."

Fiscal Impact of Bill 17-180

As stated above, the CFO provided the Council a FIS dated April 3, 2007, based on different real property tax credit criteria for the housing element than is now present in this proposed bill.

OTR estimates its administrative costs to implement this bill for FY 2007 are $73,680 and respectfully requests that funds be appropriated. The estimate includes the effort to implement the exemptions and the tax credit type (similar to a disabled or senior citizen credit) and notice changes.

Thank you, Chairman Evans, for the opportunity to comment on this bill. I would be happy to answer any questions you or other Council members might have at this time.