

**PUBLIC ROUNDTABLE ON
BILL 15-882, “PAYMENTS IN LIEU OF TAXES ACT OF
2004”**

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

The Honorable Jack Evans, Chairman

**October 7, 2004, 10:00 a.m.
Room 123, John A. Wilson Building**



**Testimony of
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Office of Revenue Analysis**

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Chief Financial Officer
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Good morning Chairman Evans and members of the Committee on Finance and Revenue. Thank you for inviting the Office of the Chief Financial Officer (OCFO) to comment at this roundtable discussion on Bill 15-882, the “Payments in Lieu of Taxes Act of 2004.” I am Julia Friedman, deputy CFO for revenue analysis.

Bill 15-882 could have substantial impacts on the District of Columbia and on its budget. While the OCFO has some serious concerns about this bill as drafted, we look forward to working with you to relieve these problems. Because we have had only a few days to review the bill, I offer these comments as preliminary. The OCFO will submit more detailed and comprehensive comments and recommendations for the record.

Bill 15-882 allows the Mayor to enter into PILOT agreements for the purpose of financing the development costs of projects that qualify under section 490 of the Home Rule Act. A PILOT agreement is a written agreement between the District and the owner of a PILOT parcel. In this agreement, the owner agrees to make payments to the District that may be less than or equal to the amount of real property tax due on the parcel for many years into the future.

The bill is an apparent funding vehicle that provides up to \$250 million for those development projects that may generate property value and other benefits, but which presumably do not generate sales tax revenues sufficient to support TIF funding. This type of PILOT was previously proposed for developing the Southwest Waterfront, where it would be used particularly to develop parcels that

are tax exempt. The transfer of a parcel from tax exempt to PILOT imposes no revenue loss on the District, because the parcel is not taxable under either scenario.

Based on our initial review of the bill, some of the OCFO's concerns include the following:

- The bill lacks the checks and balances that protect the good intentions of legislation over time.
- There are no criteria for choosing the properties and/or property owners who may qualify for receipt of a PILOT.
- There are no financial criteria for determining “need” or “public benefit” or “financial soundness” of a project. There is no requirement for financial analysis or certification by a financial body like the OCFO.
- The District's tax base will be reduced by the PILOT program, because there are no limitations on which properties will receive benefits, or on how much of the tax liability is converted to PILOT. As drafted, the revenue loss could be quite large.
- The PILOT revenue might not be used for identified development projects, because it also is available for “any other use which will be deemed to contribute to the health, education, safety, or welfare of, or the creation or preservation of jobs for, residents of the District. . .” Sec. 3. (a)(1A).

- If used for infrastructure projects, the PILOT will circumvent the District's own capital budgeting process and debt financing priorities set jointly by all leadership parties. This can be averted if the decision-making process for the use of PILOTs is part of the District's overall budget formulation and review process and overall assessment of the most desirable and cost-effective debt financing strategies.
- The bill makes no provision for funding administrative costs borne by D.C. government agencies.

These oversights can be corrected with good faith cooperation among all parties. To preserve the integrity of the presumed goal of the bill – to promote economic development in projects that do not generate enough sales tax revenue for TIF – these problems and others similar to them must be solved. We hope to work with members of the Council and Council staff toward these solutions.

Thank you for the opportunity to comment on Bill 15-882.

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