PUBLIC HEARING ON

B21-353 Local Jobs and Tax Incentive Act of 2015

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

The Honorable Jack Evans, Chairman

October 14, 2015, 10:00 a.m.
Room 500, John A. Wilson Building

Testimony of
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Good morning, Chairman Evans and Members of the Committee on Finance and Revenue. My name is John Ross, Senior Advisor and Director of Economic Development Finance for the Office of the Chief Financial Officer (OCFO). I am pleased to testify for the Office of the Chief Financial Officer on Bill 21-353 the Local Jobs and Tax Incentive Act of 2015.

The proposed legislation would provide up to $60 million of incentives to the Advisory Board Company to remain in the District. The incentives are structured as a real property tax abatement for a planned commercial development in Mt Vernon Square, and are made contingent on the Advisory Board leasing at least 425,000 square feet for 15 years, meeting certain targets for the number of District residents it employs, and adhering to a negotiated community benefits agreement. The District will credit the abatement to the owner of the commercial property, but the owner is expected to pass the abatement on to the Advisory Board.

The OCFO has transmitted both the Tax Abatement Financial Analysis and the Fiscal Impact Statement for your consideration.

Tax Abatement Analysis

The OCFO is required by The Exemptions and Abatements Information Requirements Act to assess whether the proposed abatement is necessary to achieve the goals of the legislation. For the proposed legislation, this analysis focused on the following:

- Whether the Advisory Board requires an abatement in order to maintain its headquarters in the District.

- Whether the incentive agreement is likely to increase the number of Advisory Board employees who reside in the District.
- Whether the legislation is expected to increase construction or construction employment in the District.

Maintain Headquarters in the District

Research indicates that tax incentives are generally not a critical factor in corporate decisions about where to locate. Usually the presence of a skilled workforce, good public transportation, and quality of life factors are more important considerations. The concentration of these amenities in the District is the primary reason District rents are typically higher than in surrounding areas. Many businesses choose to locate in the District without any subsidies.

The Advisory Board's criteria for its locational decision undoubtedly includes leasing and real property tax costs, but without knowing all of the factors they considered, we cannot opine definitively on whether a $60-million subsidy, or a different level of subsidy is necessary to entice the Advisory Board to maintain its headquarters in the District.

Increase of District Resident Employment

The abatement is provided subject to the Advisory Board meeting the terms of an incentive agreement negotiated by the Mayor. To receive the full $60 million abatement, the Advisory Board would need to increase the number of full-time District resident employees by 100 each year. If they fail to meet this target the abatement will be reduced.

The number of employees at the Advisory Board has been growing approximately 15 percent per year since it went public in 2001. The company projects this growth to continue. If the company elects to stay in the District, they would be expected to employ about 120 new District residents per year, meeting the bill's target of 100 per year as a matter of course. Thus, the incentive agreement does not require the Advisory Board to take any action beyond what it would likely have undertaken absent a tax abatement.

If the company were to relocate out of the District, but remain in the Washington DC metro area, it would continue to draw from the same labor market. In that case, a significant number of existing employees who reside in the District would continue to reside in the District, and a significant number of new hires would also reside in the District.

Increased Construction

By providing an abatement prior to the construction of their new headquarters, the bill provides an indirect subsidy to the location and to the property owner. This subsidy may expedite the delivery of this building at this location, but not by much. The location is in a fast growing part of the city that would likely be developed in the near future despite the legislation. Further the development of this particular property could supplant another building project in the District. For these reasons, the bill is not expected to create new real estate value or construction jobs.

Fiscal Impact

The bill will reduce real property tax collections by up to $6 million per year for 10 years beginning in FY2021. As FY2021 falls outside of the District's current financial plan, the impact of the bill cannot yet be incorporated into the District's budget and financial plan.

Thank you for the opportunity to testify. This concludes my testimony and I am happy to answer any questions you have at this time.