



District of Columbia

Data and Information Gathering: Lessons Learned in Developing D.C.'s First Tax Expenditure Evaluation Report

**Charlotte Otabor and Lori Metcalf, Fiscal Analysts
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**The information provided in this presentation does not represent the views of the Office of the Chief Financial Officer nor the District of Columbia. They are my personal views on the topic presented.*



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Outline

- D. C. tax expenditure report review
 - Overview
- Information and data gathering
 - Housing provisions overview
 - Housing goals
 - Methodology
 - Example: homestead deduction
- Lessons learned
- Report recommendations



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Tax Expenditure Review Requirement

- D.C. Law 20-155, “FY15 Budget Support Act of 2014,” requires CFO review of all local tax preferences (abatements, credits, and exemptions) on a five-year cycle
- Among other things, the review should:
 - Be published annually
 - Analyze and report Individual preferences in groupings of similarly purposed preferences, focusing on the collective effects or trends that emerge
 - State the purpose of the tax preferences within the groupings
 - Include the amount of lost revenue due to the tax preferences
 - Include recommendations on how to improve similar preferences in the future



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Tax Expenditure Report: Policy Areas

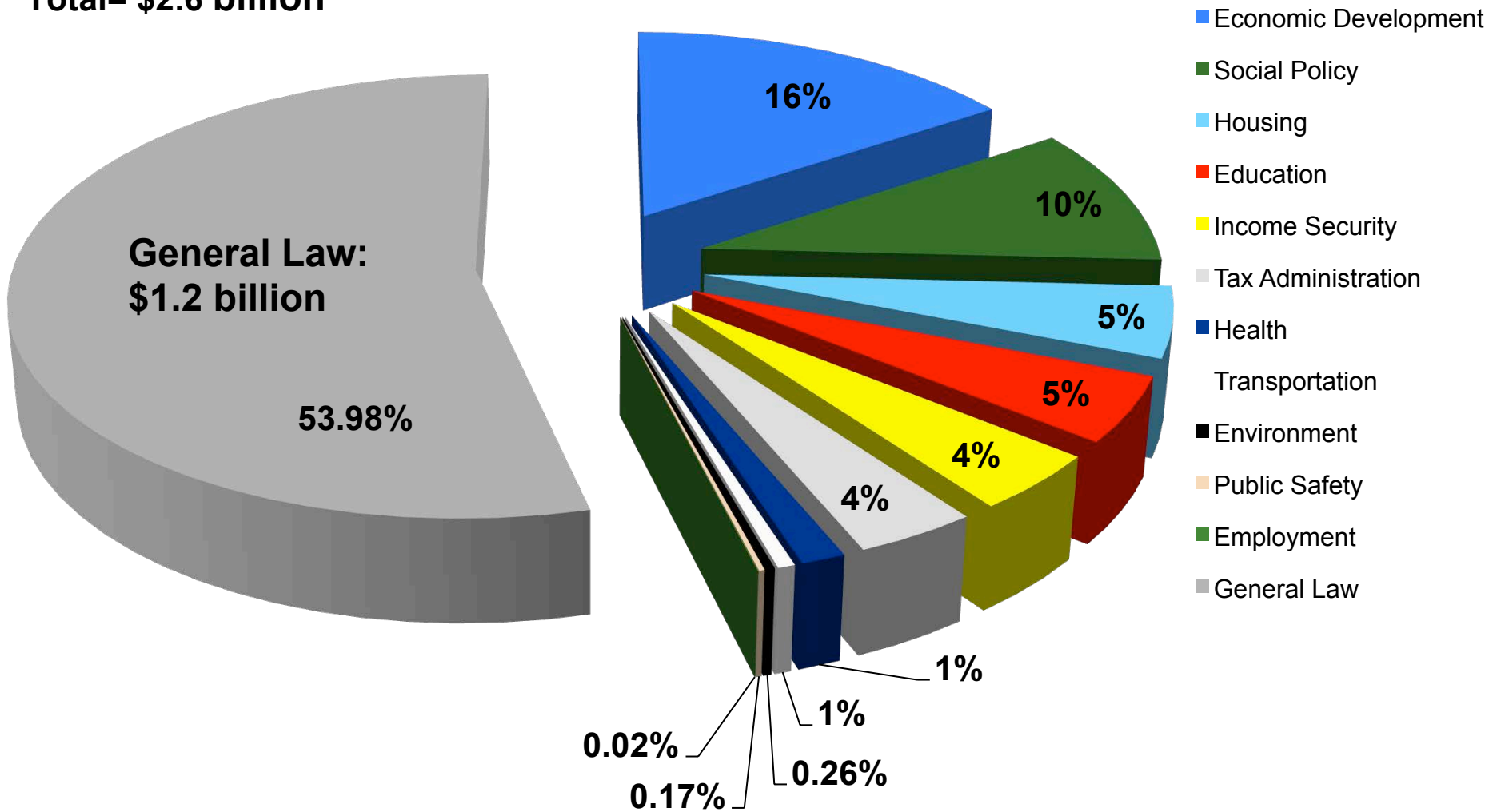
	Program Area	Total aggregate estimated revenue loss
#	(# of provisions)	(\$ millions)
1	Housing (28)	116.5
2	Environment (6)	5.7
3	Public Safety (2)	3.6
4	Transportation (3)	11.9
5	Tax Administration (10)	87.8
6	Economic Development (25)	366.8
7	Education (5)	108.2
8	Health (7)	31.4
9	Employment (3)	.453
10	Social Policy (14)	234.3
11	Income Security (12)	96.5
12	General Law (9)	



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FY2015 All District Tax Expenditures, by Policy Area

Total= \$2.6 billion

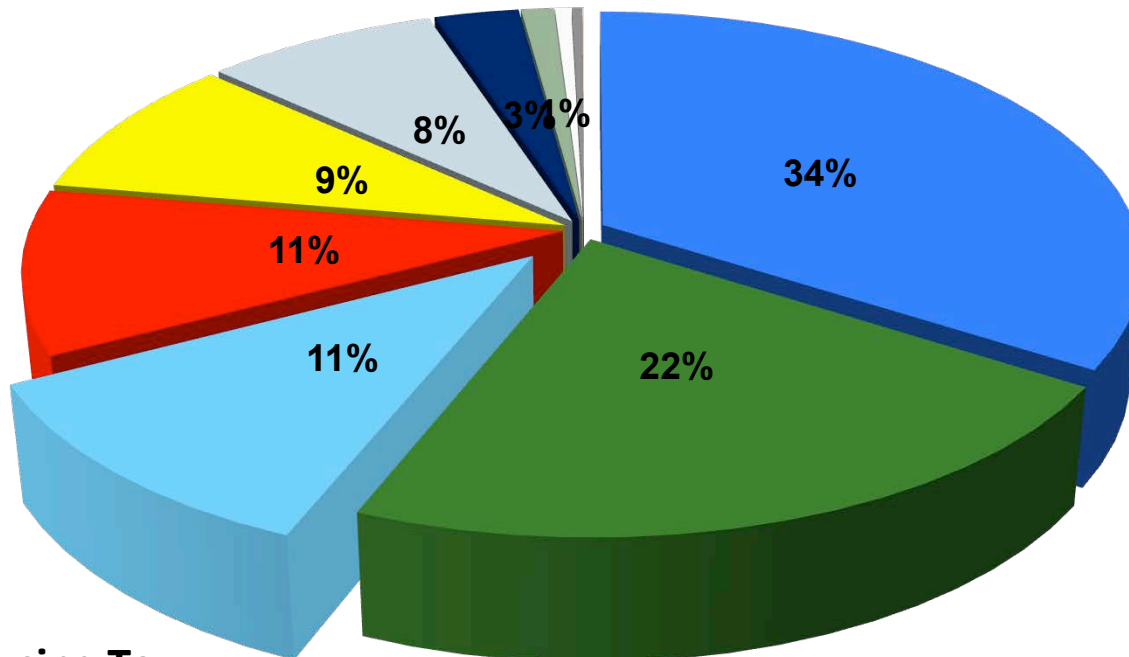




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FY2015 Local District Tax Expenditures, by Policy Area

Total = \$1.04 billion



- Economic Development
- Social Policy
- Housing
- Education
- Income Security
- Tax Administration
- Health
- Transportation
- Environment
- Public Safety
- Employment

Housing Tax Expenditures = \$117 million

Source: ORA Analysis of 2014 District of Columbia Tax Expenditure Report. Housing total updated to reflect updated estimates as of June 2015.

Note: Does not include certain tax expenditures that are not assigned to a policy area. Further, summing tax expenditures does not take into account possible interactions among individual tax expenditures so does not produce an exact estimate of the revenue that would be gained were any specific provision removed. Some evidence suggests that interaction effects generally increase the overall size of federal tax expenditures since eliminating tax expenditures would push many into higher tax brackets.



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Information and Data Gathering : Housing Overview

The District's Housing Policy Goals

- Homeownership and protecting homeowners from sharp property tax increases
 - Homestead deduction and assessment increase cap
- Affordable Housing



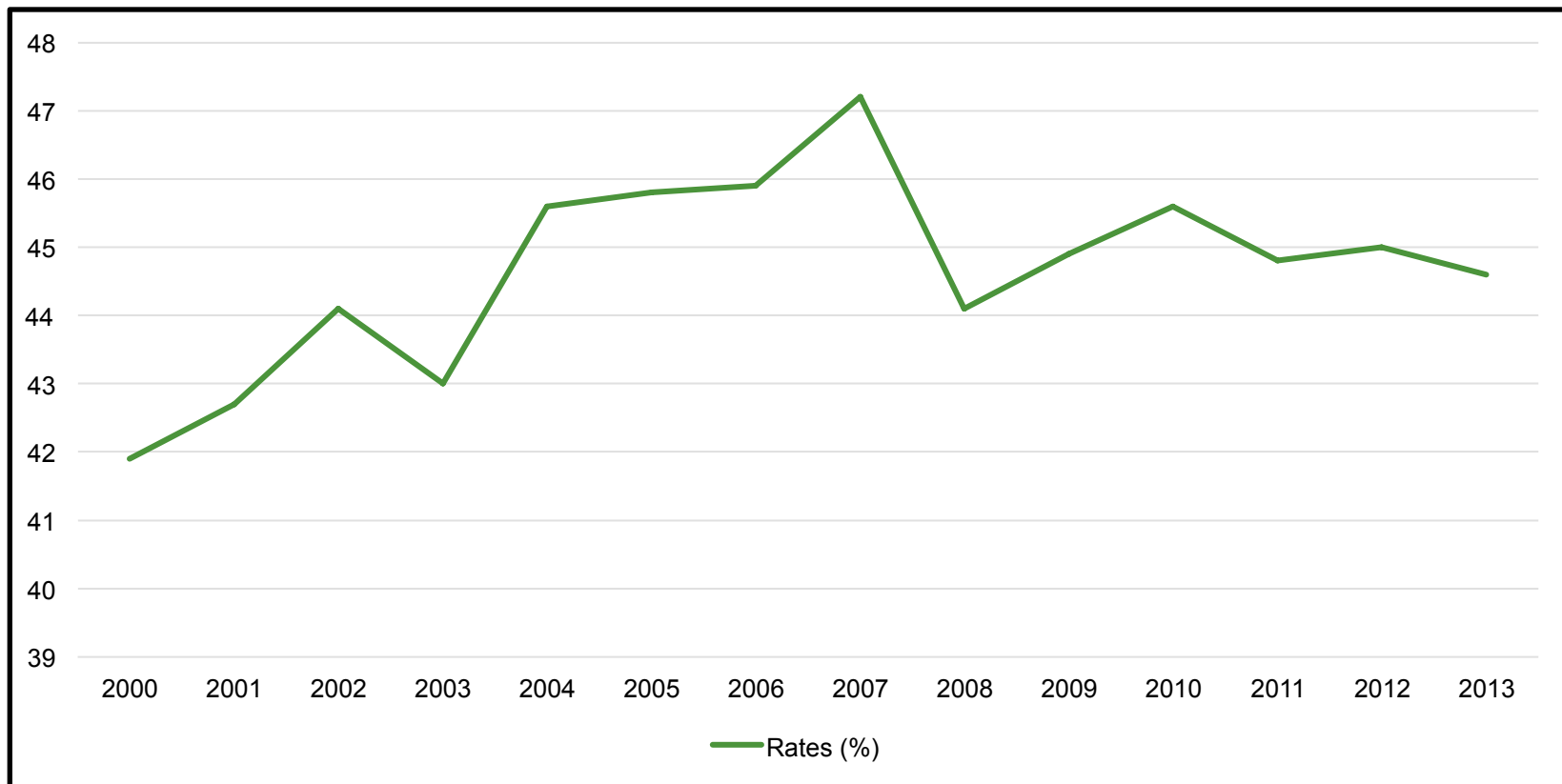


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Information and Data Gathering: Housing Overview

DC still has the third lowest homeownership rate (42 percent) of major US cities, behind New York and Los Angeles. This trend does not follow the US average; the country as a whole had a homeownership rate from 2009-2013 of nearly 65 percent

DC Homeownership Rates 2000-2013

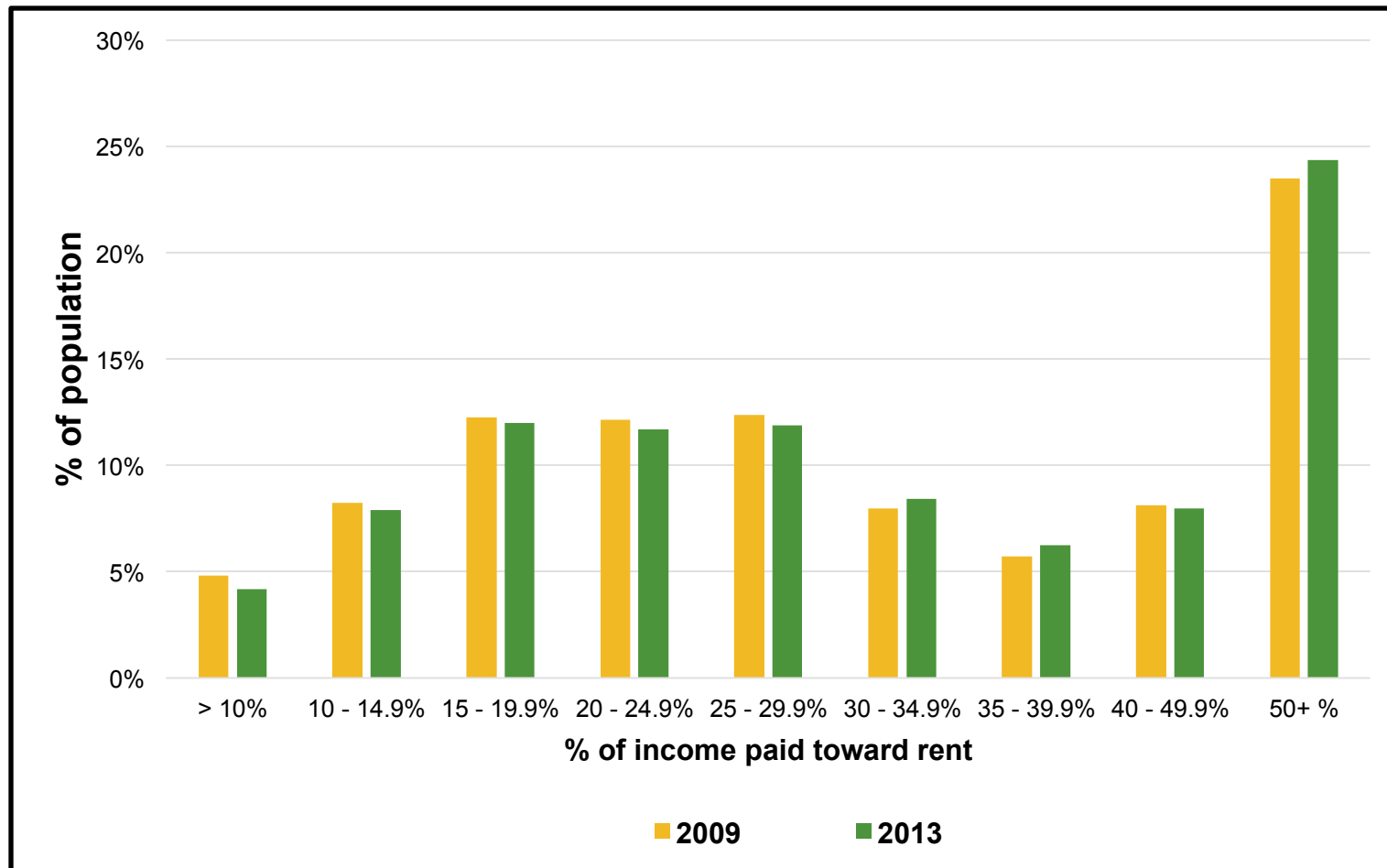




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Information and Data Gathering: Housing Overview

Percentage of Rent Distribution as a Share of Income in DC, 2009 and 2013





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Types of Housing Tax Provisions

- **28 Categorical provisions** generally support four activities:
 - assist low-income homeownership (9);
 - protect low-income and seniors/disabled from tax increases (7);
 - increase supply of affordable housing (7);
 - and encourage revitalization and new development (4)
- **31 Individual provisions** largely intended to promote affordable (20 have affordability measures) and mixed income housing

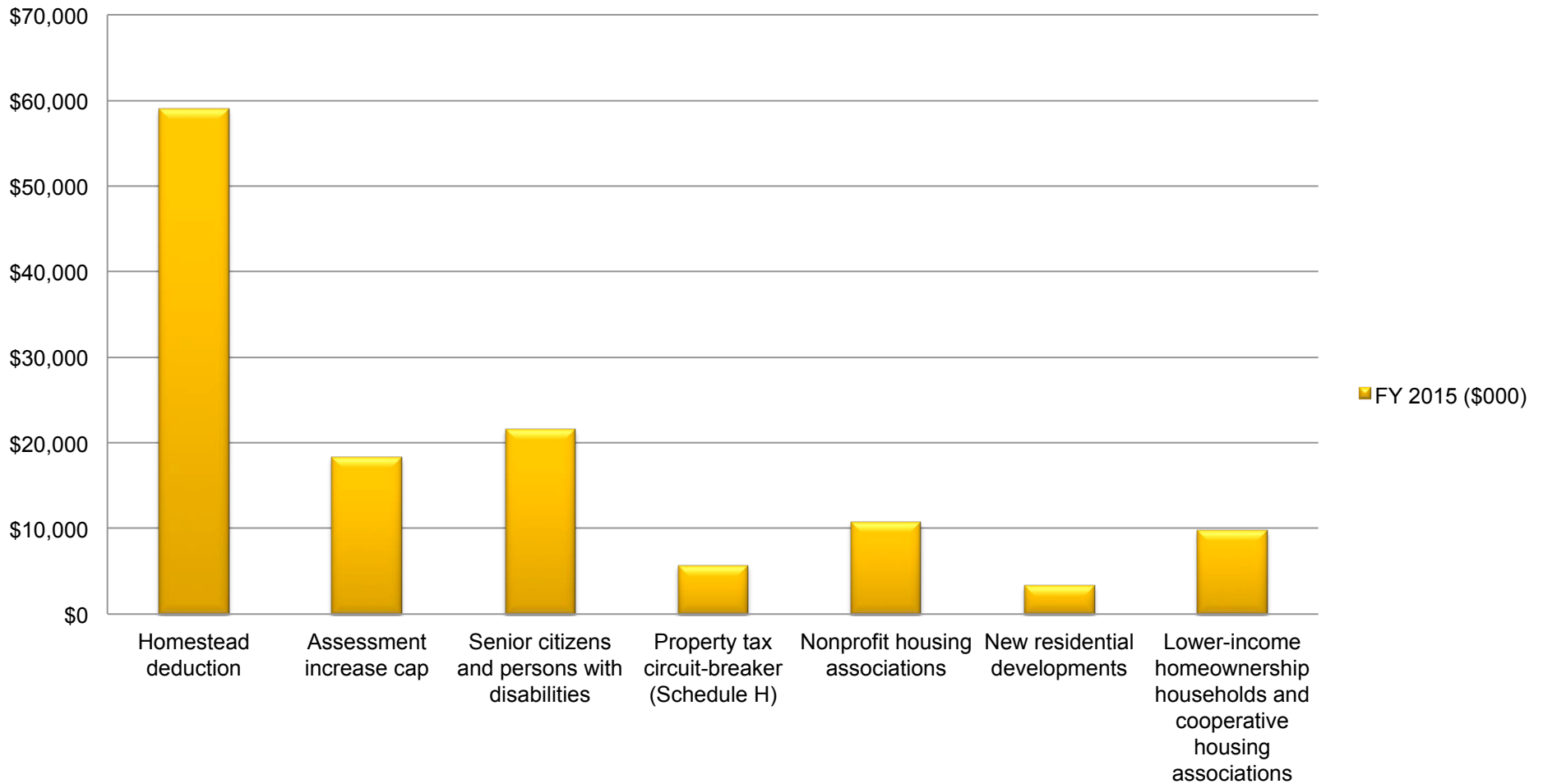




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Largest Categorical Tax Expenditures

FY 2015 (\$000)

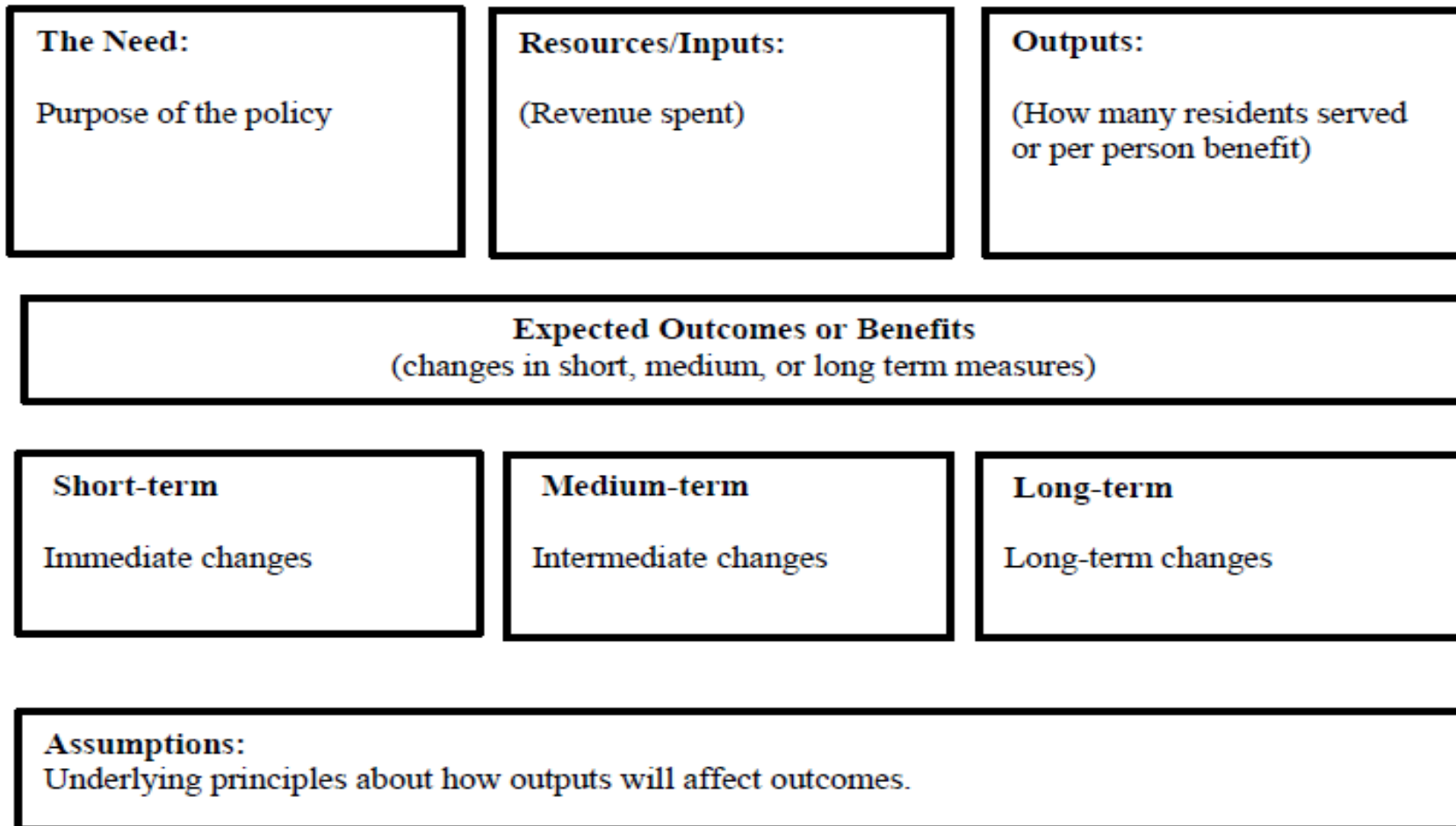




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Report Methodology

Sample Logic Model:





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Data Sources

Within the OCFO:

- Office of Revenue Analysis (ORA)
- Office of Tax and Revenue (OTR)

Other agencies:

- Department of Housing and Community Development (DHCD)
- Office of the Deputy Mayor for Planning and Development (DMPED)
- Pew Trust
- Center for Nonprofit Housing and Economic Development (CNHED)

Data:

- Real Property Tax data (RPT) and Income Tax Data
- Fiscal Impact Statements and Tax Abatement Financial Analysis
- Tax Expenditure Reports and other relevant ORA reports, such as Tax Facts, for information or data
- Exempt Property Use Report (Form FP 161)-Full exemptions (and from 2012 abatements)
- Aggregated data from DMPED
- DC Code and Municipal Regulations

Data we would have liked to add:

- Monitoring Reports from different government agencies



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Categorical Provision- Homestead Deduction

Homestead Deduction

The Need:

The purpose of the homestead deduction is to encourage individuals to own and occupy homes in the District of Columbia and to provide tax relief to resident homeowners.

Resources/Inputs:

Residents owning and living in their residence for the entire year may deduct \$71,400 (in 2015) from the value of their home before calculating property taxes owed. It is categorized as an exemption. The revenue foregone was estimated to be \$59,334,000 in FY15.

Outputs:

From 2010 to 2014, an average of 95,336 residents took the homestead deduction per year. In 2014, the average tax savings for each resident was \$600.

Expected Benefits

(changes in short, medium, or long term measures)

Short-term:

In TY14, 45% of the district's taxable residential property, or 6,142 acres with a total value of \$49.7 billion, was allowed the homestead deduction in order to promote homeownership.

Medium-term:

The rate of homeownership in the District rises as more residents choose to stay in their homes than might otherwise do so without the deduction, while new residents may also see the tax benefit as a reason to move into the District.

Long-term:

Various positive benefits for both long-term residents and the city. The city benefits because home ownership strengthens neighborhoods as homeowners have stake in community; more diverse city/neighborhoods; building a middle class tax base for economic and tax base stability.

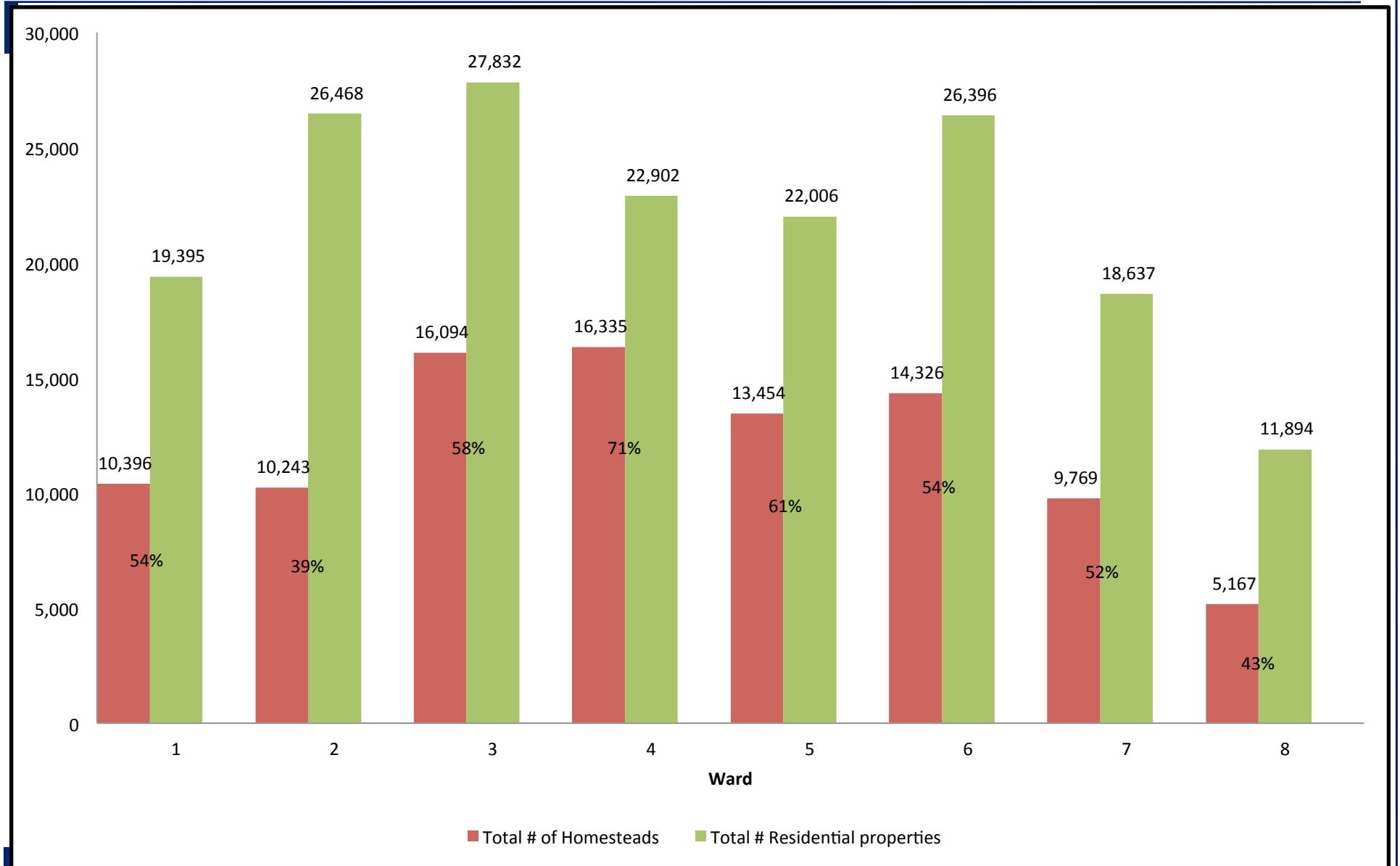
Assumptions:

Homestead Exemptions encourage homeownership, which, at least to a certain degree, promotes staying in DC versus moving out of the city.



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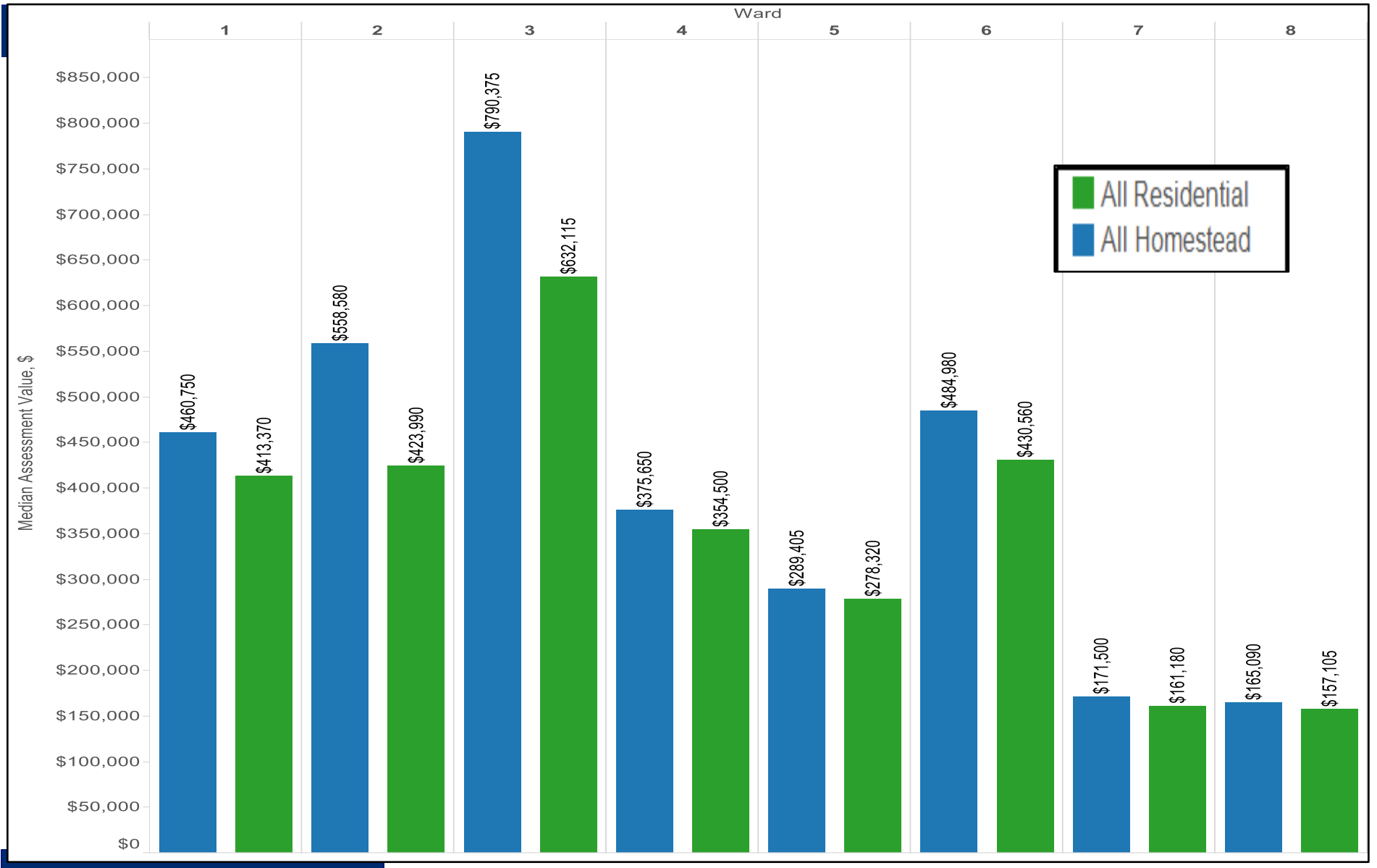
Categorical Provision- Homestead Deduction





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Categorical Provision- Homestead Deduction





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Categorical Provision- Homestead Deduction

Cities	Median House Value	Homestead Deduction Amount	Homestead Deduction as a Percent of House value
Washington, DC	\$373,500	\$ 69,100	19%
Baltimore, MD	\$270,000	N/A	0%
New York, NY	\$392,700	\$ 30,000	8%
Los Angeles, CA	\$453,500	\$7,000	2%
San Francisco, CA	\$602,800	\$7,000	1%
Chicago, IL	\$206,300	\$7,000	3%
Philadelphia, PA	\$233,600	N/A	0%

Source: ORA, 2013 Tax Rates and Tax Burdens: median house value from Census ACS.



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Findings-Lesson Learned

- Housing Provisions are complicated!
 - Financing of a property sometimes require the cooperation from various government agencies
 - Figuring out who to talk to
 - Who monitors whom?
 - Vagueness of some legislation
 - Data collected on the provisions must be mapped to the way they are defined in the statute, is legislative definition do not line up with data storage
 - The code for a lot properties that receive an exemption because they provide housing is actually a "Miscellaneous" code
 - Some nonprofits housing providers could be coded as "charities" instead of housing providers



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Findings-Lesson Learned

When exemption code is used to estimate revenue loss:

Exemption Type	Count	Taxes Forgone (\$)
DC-EXEMPT	3,113	234,546,179
E0 – LOW INCOME	2,419	4,551,045
E1 - RELIGIOUS	1,248	65,409,329
E2 - EDUCATIONAL	507	130,084,379
E3 - CHARITABLE	500	18,542,630
E4 - HOSPITALS	15	16,135,477
E5 - LIBRARIES	3	453,555
E6 - FOREIGN GOVT.	620	48,709,404
E7 - CEMETERIES	24	6,847,697
E8 - MISC. EXEMPT	954	134,231,653
E9 - METRO EXEMPT	425	10,185,688
US - FED EXEMPT	2,861	873,576,329
Total	12,689	1,543,273,363



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Findings-Lesson Learned

- How can tax revenues forgone be estimated?
 - Incomplete information

- Using assessment values?
 - Time consuming
 - SSL (geographic location code) change overtime





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Self-Monitoring: Exempt Property Use Report (Form FP-161)

■ Exempt Property Use Report (Form FP 161)

3. Was any building, structure, or grounds, or any portion thereof used by the institution or organization, or the occupant thereof, to secure direct, indirect, or in-kind rent or income during the year? Yes No

If yes, give details. Please refer to enclosed instructions, number 7 _____

State the square footage of the space provided, the tenant's name, the period of time the space was used to secure rent or income, and the amount of rent. _____

4. Since last year has the use of any building or grounds, or any portion thereof, changed? Yes No

If yes, give details. _____



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Report Recommendations

1. Standardize affordability requirements across housing tax preferences;
2. Clarify which agency is responsible for monitoring compliance with tax expenditure terms and assign a third party body to oversee the monitoring of District housing tax incentives;
3. Require recipients of tax expenditures to remain in compliance with the original terms in order to keep receiving the tax preference; include claw backs if they do not;
4. Require all entities receiving tax preferences to submit an annual report, proving they remain in compliance. Where possible, make this data publicly available; and
5. Use more granular or specific codes for data on tax expenditure recipients in OTR's ITS system.



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Lessons Learned and Concluding Thoughts

- Reviewing and evaluating tax expenditures is a long-term process. The new requirement in DC has highlighted some ways that data collection and organization can be improved.
- The first review of each policy area's tax expenditures will be very exploratory as we learn what data are available, who (if anyone) is collecting data, whether we can obtain it, and how it is organized.
- With more output data, more thorough reviews and evaluations may be performed. This could take a couple of cycles of review.



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Thank you! and Questions??