

**Government of the  
District of Columbia**



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**District of Columbia  
2016 Tax Expenditure Review**

**Environment, Public Safety, Transportation,  
and Tax Administration and Equity Provisions**

**Produced by the  
Office of Revenue Analysis**

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We welcome feedback related to the report. Please contact Lori Metcalf at 202-727-3305 with questions or comments.

## **Executive Summary**

## **Introduction**

The following report is published pursuant to D.C. Law 20-155, which requires the Chief Financial Officer (OCFO) to review all D.C. tax expenditures (such as abatements, credits, and exemptions) on a five-year cycle. For this second report fulfilling the requirement, the Office of Revenue Analysis (ORA) conducted a review of all of the District's environment, transportation, public safety, and tax administration and equity tax expenditures. Given that this is the first time such an analysis has been done on these policy areas in particular, it was not clear what data would be needed and how it should be organized and tracked to facilitate an evaluation. As such, one of the major accomplishments of this report is the compilation of an inventory of these tax expenditures. Further, the report provides a framework for future reviews of tax expenditures in these and other policy areas.

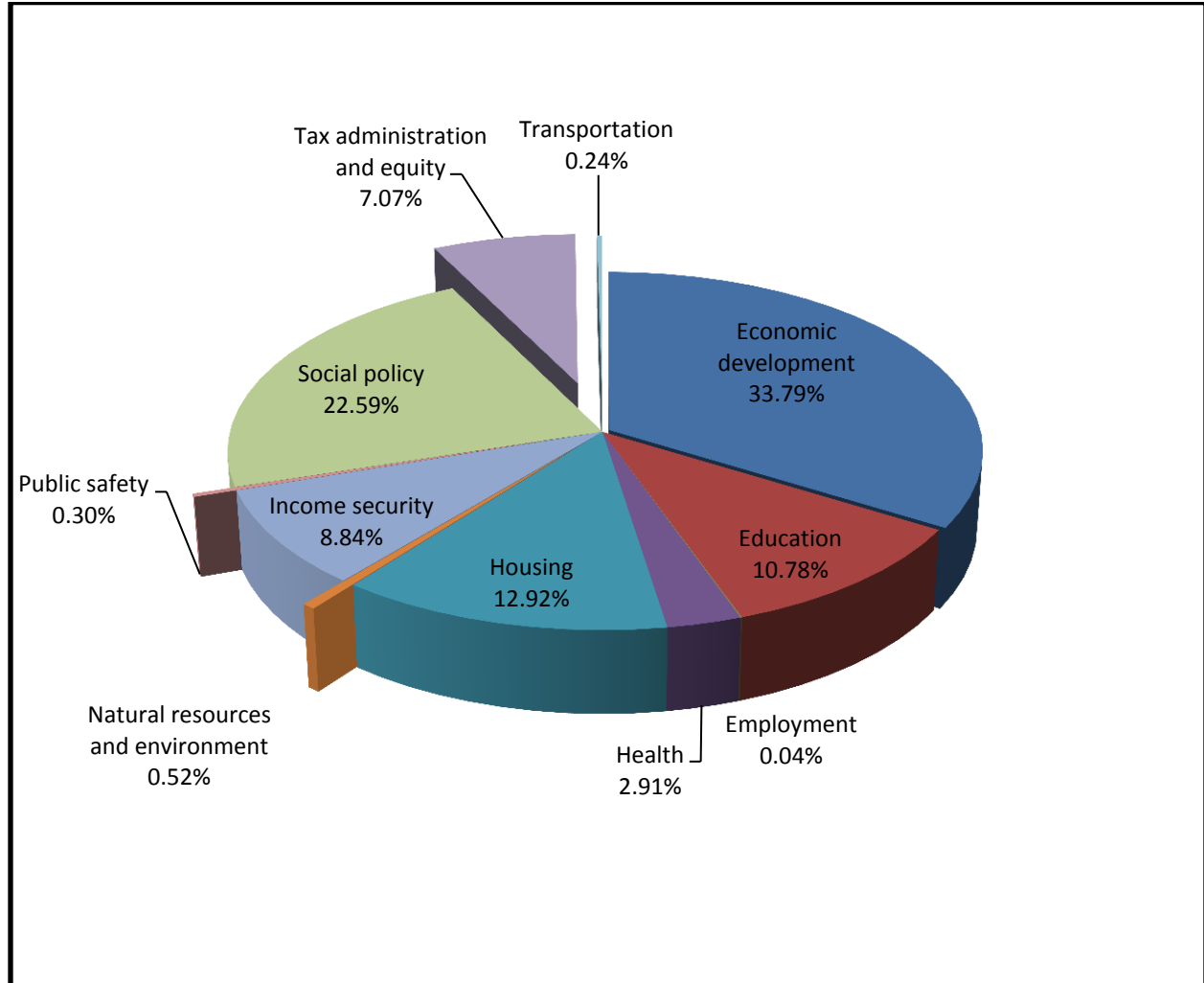
## **Overview of Tax Expenditures and Their Evaluation**

Tax expenditures, also called tax preferences or tax incentives throughout this report, are often described as “spending by another name.” Policymakers use various types of tax expenditures, such as abatements or credits, to promote a wide range of policy goals in the District of Columbia. Tax expenditures differ from direct expenditures in several respects. Direct spending programs in the District receive an annual appropriation and the proposed funding levels are reviewed during the annual budget cycle. By contrast, tax expenditures remain in place unless policymakers act to modify or repeal them; in this respect, they are similar to entitlement programs. Direct spending programs are itemized on the expenditure side of the budget, whereas revenues are shown in the budget as aggregate receipts without an itemization of tax expenditures.

Chart 1 below presents an aggregation of all of the District's tax expenditures for fiscal year 2016, as presented in the 2016 District Tax Expenditure Report. As the figure shows, tax preferences targeted to economic development make up the largest category of District spending through the tax code. This total includes the sales tax exemption for professional and personal services, as well as transportation and communications services, which together make up 90 percent of the total for economic development. Tax preferences for social policy, including sales and property tax exemptions for churches and nonprofit organizations, as well as the sales tax exemption for groceries, comprise the second largest aggregate amount of spending through the tax code by policy area.

The focus of the present report is on the pie slices that are highlighted, including: tax expenditures related to the environment, public safety, transportation, and tax administration and equity. These areas tend to have fewer tax expenditures and represent small amounts of revenue loss in comparison to the total.

**Chart 1: Local FY16 Tax Expenditures, Aggregated by Policy Area**



Source: ORA Analysis.

Note: Chart does not include tax expenditures that are not assigned to a policy area, such as the exemption of Federal and D.C. Government property from taxation. Further, summing tax expenditures does not take into account possible interactions among individual tax expenditures so it does not produce an exact estimate of the revenue that would be gained were any specific provision removed.

### **Evaluating Tax Expenditures**

By conveying benefits to some taxpayers and not others, a broad impact of spending through the tax code is that overall tax rates must be higher than they otherwise would have been in order to raise the same amount of revenue to fund the government. As such, there is a growing awareness of the need to evaluate tax expenditures, the same as a government's direct spending should be evaluated, to ensure that it is efficient, equitable, and effective at meeting the goals for that spending.

### **Methodology: How this review was conducted**

The layout of this report largely follows the format of the first tax expenditure review, which covered housing tax expenditures and was released in 2015. However, because four smaller policy areas are



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included in this report, they are presented as standalone chapters and summarized in the Executive Summary. As in previous ORA reports, tax expenditures are grouped by policy area and are labeled as either categorical or individual. Categorical tax expenditures are those which any person or entity who is eligible may take. Individual tax expenditures, for the purposes of this report, define those provisions for which an individual entity or organization was awarded a tax preference based on specific circumstances.

In addition to providing a description of each of the tax expenditures and estimates of revenue foregone from 2011 to 2018, we present a logic model, which is frequently used to evaluate programs and policy. This serves as a visual tool to quickly summarize the need for the policy, the inputs (what the District is contributing toward the need with this provision), the outputs (what citizens receive due to this policy), and what the various short-, medium-, and long-term outcomes are (what effect or impact did the policy have). For this report, a lack of data means that many of the logic models contain descriptions of expected benefits or outcomes, rather than actual outcomes. Some fields are blank if the tax expenditure does not have clear benefits.

Evaluating the success of the District's tax expenditures primarily entails examining how they meet the goals set out for them when they were created. However, another important question to ask when examining the tax preferences in a single policy area is whether these tools are also helping the District meet its overall goals and needs in that area. Thus, in each chapter, we provide a brief summary of environment, public safety, and transportation goals in the District, to provide a broader context within which to assess the tax expenditures.

### **Summary of Tax Expenditure Provisions**

Overall, tax expenditures are not widely used as a policy tool in the areas of the environment, public safety, and transportation. As such, this report generally serves to describe the tax expenditures in each policy area and briefly discusses them in the context of the District's broader goals and activities in that area.

#### Environment

There are 10 environment-related tax expenditures that represented just under \$7 million in foregone revenue in FY16. These provisions generally support residential trash collection; alternative fuel vehicle conversion; brownfield cleanup and revitalization; and solar and renewable energy. Two Individual tax expenditures related to the environment are identified for the first time here and both involve a property tax exemption for conserving historic land for use as a public park and green space. Each of these tax expenditures generally supports the District's broader environmental goals.

#### Public Safety

There are two public safety-related tax expenditures. One of these -- a property tax exemption for the land on which the D.C. Department of Corrections houses all of its female and juvenile prisoners as well as some low-to-medium risk male prisoners -- represented just under \$4 million in foregone revenue in FY16. A second tax expenditure in this area offers rental assistance to D.C. police officers, but it is currently only minimally used, if at all. Both of these tax expenditures support the District's broader public safety goals.

#### Transportation

There are three transportation-related tax expenditures that represented just under \$13 million in foregone revenue in FY16, about three-fourths of which stemmed from the property tax exemption for Metro property owned by the Washington Metropolitan Area Transit Authority (WMATA). The other two transportation-related tax expenditures include a personal property tax exemption for commercial motor vehicles and trailers and a sales tax exemption for valet parking services. The WMATA provision directly

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supports the District's transportation goals, while the other two do not directly contribute to broader transportation policy goals, though they are transportation-related.

### Tax Administration and Equity

There are seven tax administration and equity-related tax expenditures, with just two of them representing \$84 million in foregone revenue in FY16. Most of the tax expenditures in this section exist in order to assist with the administration of tax laws in particular circumstances, as well as to prevent double taxation on certain firms for purposes of equity. Further, one of these provisions exists to provide parity between similar types of firms (wireless telecommunications providers to regular telecommunications providers). The only two tax expenditures in this section with an estimate of foregone revenue exist for the purposes of preventing double taxation of public utilities and telecommunications providers.

Because the tax expenditures in the final section are different in nature than the others in the previous three sections of the report, which often have a policy focus and are meant to incent or subsidize particular behaviors, an abbreviated listing of these tax expenditures is presented.

### **Recommendations**

The only recommendation that arose from our review of each of these areas involves tax expenditures that are not being used for various reasons. In the case of the environment-related 'Brownfield Revitalization and Clean up' and 'Environmental Savings Account' tax expenditures, we recommend that the District Department of Energy and Environment (DOEE) promulgate the regulations necessary to implement the provisions, so that interested taxpayers may take advantage of the incentives to clean up brownfield properties. (DOEE officials have informed us that the statute needs to be amended before the regulations can be written, and DOEE is currently working on that process.) In the area of public safety, the provision of rental assistance to police officers may need more marketing on the police force to ensure officers know it exists. It will not achieve the policy goal of incenting District officers to live in the District if they do not know about it and are not using it.

### **Outline of the Report**

First, an introduction presents the legal requirement for the report, as well as an overview of what tax expenditures are, in general, and how they are used and classified in the District of Columbia. A discussion on evaluating tax expenditures describes why they should be evaluated and some of the questions that should be asked in doing so, following the model set by the U.S. Government Accountability Office (GAO). Next, an overview of how this review was conducted includes the methodology and the specific research steps taken, as well as the sample logic model used to trace the purpose of each tax expenditure to its intended outcome.

The remainder of the report is divided into four parts, one chapter for each policy area reviewed. In each section, both categorical and individual tax expenditures (if they are identified) are presented. The section on categorical tax preferences presents a summary table of all categorical tax expenditures, followed by a description of each one, with the most updated data available on revenue foregone, number of claimants, and any other information that we were able to compile that is relevant for assessing the provision. Each section concludes with a summary and recommendations.

## **Part I: Introduction**

## **Legal Requirement**

The following report is published pursuant to a subtitle of D.C. Law 20-155, the “Fiscal Year 2015 Budget Support Act of 2014.” Also called “Tax Transparency and Effectiveness,” the legislation requires the Office of the Chief Financial Officer (OCFO) to review all D.C. tax preferences (abatements, credits, and exemptions, among others) on a five-year cycle. To comply with this requirement, the OCFO must summarize the purpose of each provision, estimate the revenue foregone, examine the impacts on the District’s economy and social welfare, and offer recommendations about whether to maintain, revise, or repeal the tax preference. The full text of the legislative requirement is presented in the Appendix. This is the second such report issued to meet the legal requirement.

## **Overview of Tax Expenditures and Their Evaluation**

Tax expenditures are often described as “spending by another name.” They are ‘preferences’ in the tax code that convey a benefit to certain individuals or businesses. As such, the terms ‘tax expenditure’ and ‘tax preferences’ will be used interchangeably throughout this report. Policymakers use various specific types of tax expenditures, including tax abatements, credits, deductions, deferrals, and exclusions to promote a wide range of policy goals in education, human services, public safety, economic development, environmental protection, and other areas. Instead of pursuing these objectives through direct spending, policymakers reduce the tax liability associated with certain actions (such as hiring new employees) or conditions (such as being elderly) so that individuals or businesses can keep and spend the money that would otherwise be used to pay taxes. For example, a program to expand access to higher education could offer tax deductions for college savings instead of increasing student loans or grants. Regardless of the approach, there is a real resource cost in terms of foregone revenue or direct expenditures.

Tax expenditures are frequently used as a policy tool in the District of Columbia. There are two broad types of tax expenditures: (1) federal conformity tax expenditures, which apply U.S. Internal Revenue Code provisions to the D.C. personal and corporate income taxes, and (2) local tax expenditures authorized only by D.C. law. By conforming to the federal definition of adjusted gross income (with several exceptions), the District adopts most of the exclusions and deductions from income that are part of the federal personal and corporate income tax systems. Most other states with an income tax also use federal adjusted gross income as the basis for their income tax.

An example of a federal conformity tax expenditure is the home mortgage interest deduction: the District follows the federal practice of allowing taxpayers to deduct home mortgage interest payments. In addition to the 106 federal conformity provisions covered in the most recent Tax Expenditure Report (TER) produced by the OCFO’s Office of Revenue Analysis (ORA), there are 165 tax expenditures established by local law. An example of a local tax expenditure is the homestead deduction, which allows all D.C. taxpayers who live in their own home to deduct a certain amount (\$71,700 in 2016) from the taxable value of the home. Both federal conformity and local tax expenditures warrant regular scrutiny to make sure they are effective, efficient, and equitable, and to highlight the tradeoffs between tax expenditures and other programs.

Tax expenditures differ from direct expenditures in several respects. Direct spending programs in the District receive an annual appropriation and the proposed funding levels are reviewed during the annual budget cycle. By contrast, tax expenditures remain in place unless policymakers act to modify or repeal them; in this respect, they are similar to entitlement programs. Direct spending programs are itemized on

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the expenditure side of the budget, whereas revenues are shown in the budget as aggregate receipts without an itemization of tax expenditures.

ORA has produced a biennial tax expenditure report since 2002; it was required by D.C. Law 13-161 in the “Tax Expenditure Budget Review Act of 2000.” The itemization of tax expenditures provides policymakers with a more complete picture of how the government uses its resources so they may consider how to allocate resources more effectively. For example, if ineffective or outmoded tax expenditures were eliminated, policymakers could free up resources to expand high-priority direct spending programs or cut tax rates. The tax expenditure report is designed to provide policymakers with the information they need about tax expenditures to make sound fiscal policy decisions.

The different types of tax expenditures are as follows:

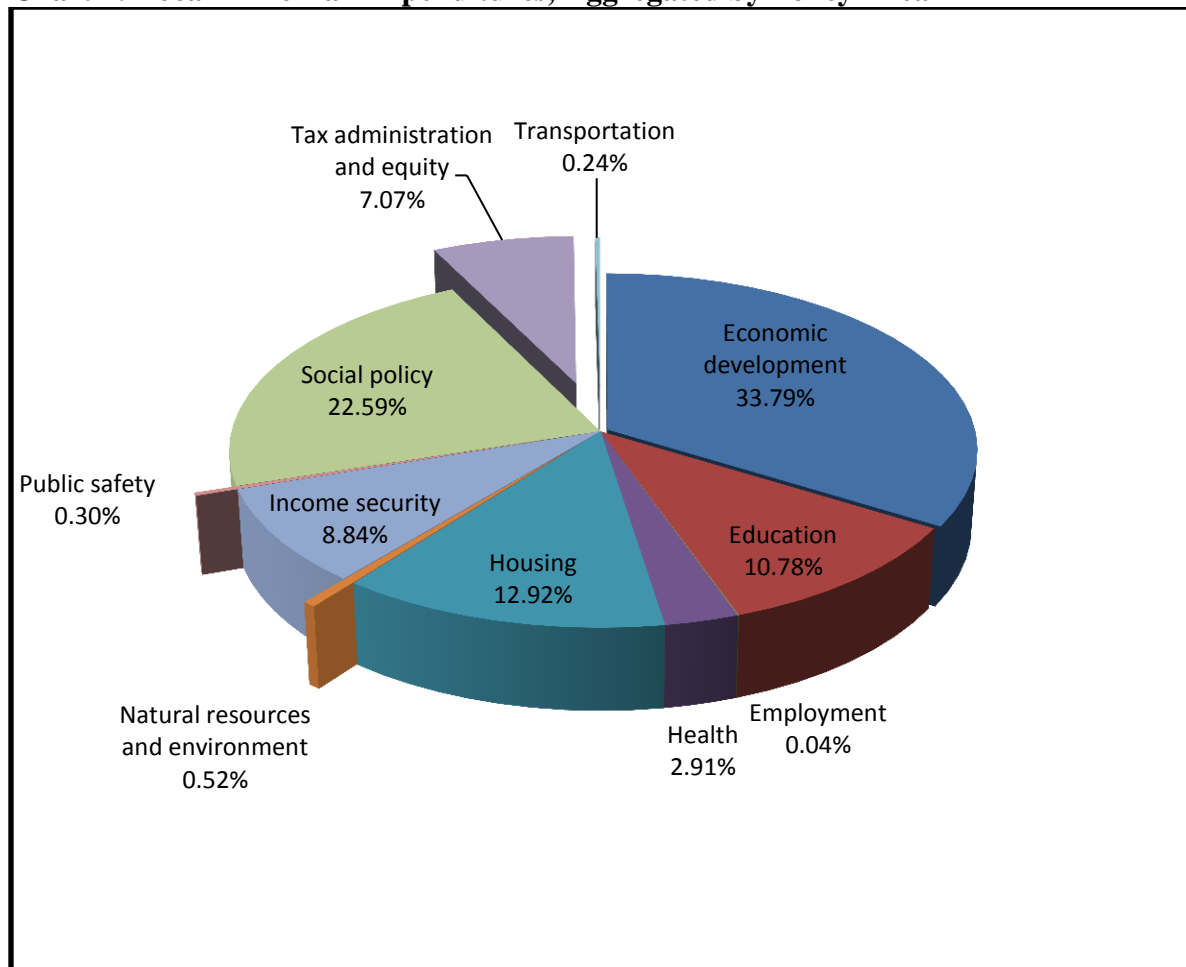
- abatements, which are reductions in tax liability (typically real property tax liability) that are often applied on a percentage basis or through a negotiated process.
- adjustments, which are reductions in taxable income that are available to all tax filers who meet certain criteria, whether or not they itemize their deductions. Adjustments are also known as “above-the-line” deductions and are entered on the tax return.
- credits, which reduce tax liability directly instead of reducing the amount of income subject to taxation. Credits can be refundable (if the amount of the credit exceeds tax liability, the taxpayer gets the difference as a direct refund) or non-refundable (the amount of the credit cannot exceed tax liability).
- deductions, which are reductions to taxable income that must be itemized on the tax form. This option is not available to those who choose the standard deduction.
- deferrals, which delay the recognition of income to a future year or years. Because they shift the timing of tax payments, deferrals function like interest-free loans to the taxpayer.
- exclusions, which are items that are not considered part of a taxpayer’s gross income for tax purposes, even though they increase his or her resources or wealth. Exclusions do not have to be reported on a tax return but still cause adjusted gross income to be lower than it otherwise would be. Employer contributions to health and retirement plans are examples.
- exemptions, which are per-person reductions in taxable income that taxpayers can claim because of their status or circumstances (such as being a senior citizen).
- rebates, which are refunds provided to qualifying taxpayers as a separate payment (as contrasted with tax credits that are first applied as a reduction of tax liability).
- special rules, which is a category used for federal tax expenditures that involve blended tax rates or special accounting procedures and do not fit neatly into any other category.
- subtractions, which are reductions from federal adjusted gross income that are used to derive District of Columbia adjusted gross income. Subtractions reflect income that is taxed by the federal government but not by the D.C. government.

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Chart 2 below presents an aggregation of all of the District’s tax expenditures for fiscal year 2016, as presented in the 2016 District Tax Expenditure Report. The policy areas covered in this second report represent several of the smallest categories of tax expenditures, as can be seen in the pie slices highlighted below.

As the pie chart below shows, tax preferences targeted to economic development make up the largest category of District spending through the tax code, and will be the focus of the 2017 report. This category includes the sales tax exemption for professional and personal services, as well as transportation and communications services, which together make up 90 percent of the total for economic development. Tax preferences for social policy, including sales and property tax exemptions for churches and nonprofit organizations, as well as the sales tax exemption for groceries, comprise the second largest aggregate amount of spending through the tax code by policy area. Assessing all District tax expenditures in this way, the total of those targeted to housing is the third largest group, and those preferences were described in detail in the 2015 D.C. Housing Tax Expenditure Review. The policy areas reviewed in this report are highlighted below and tend to have fewer tax expenditures and represent smaller amounts of revenue loss in comparison to the total.

**Chart 2: Local FY16 Tax Expenditures, Aggregated by Policy Area**



Source: ORA Analysis. Note: Chart does not include tax expenditures that are not assigned to a policy area, such as the exemption of Federal and D.C. Government property from taxation. Further, summing tax expenditures does not take into account possible interactions among individual tax expenditures so it does not produce an exact estimate of the revenue that would be gained were any specific provision removed.

## **Evaluating Tax Expenditures**

Knowing how much is being spent on a program alone does not provide enough information to assess its effectiveness. For this reason, there is a growing awareness of the need to evaluate tax expenditures--just as a government's direct spending should be evaluated--to allow policymakers to ensure that a government's spending is efficient, equitable, and effective at meeting the goals for that spending. The Pew Charitable Trusts is leading an effort to track states' efforts in this area and to serve as a resource for state and local governments that are embarking on tax expenditure evaluation. As Pew notes on its web site, "[S]tate leaders need better information to avoid unexpected budget challenges, identify effective incentives, and reform or end programs that are not meeting expectations."<sup>1</sup>

As Michael Bell and Daniel Muhammad wrote in a paper presented to the D.C. Tax Revision Commission in 2014, "[Property] tax expenditures are often granted in an ad hoc fashion as interest groups, or elected officials, responding to concerns expressed by their constituents, petition for preferential treatment. Since they are not part of the annual budget process, there is no mechanism to step back and look at the cumulative consequences for the administration of the [property] tax of preferential treatment granted to various stakeholders in the community over time."<sup>2</sup> In that paper, they offer several scenarios of other ways the revenue foregone from the current tax expenditures could be distributed across taxpayers (and across land types). Their report includes all types of property use, whereas this report focuses solely on environment-, public safety-, transportation-, and tax administration and equity-related tax expenditures (whether through the property tax or other taxes), however many of their findings are relevant to any policy area.

This is the second report in which the District reviews a set of tax expenditures in its effort to cover all local tax expenditures in a five-year period. This report covers tax expenditures in the areas of environment, transportation, public safety, and tax administration. The first report reviewed all of the District's housing-related tax expenditures. While data availability preclude a full-scale evaluation, this report, like the first one, lays the groundwork for future evaluation by compiling all of the relevant tax expenditures and reviewing them using a logic model, which was first introduced in ORA's 2015 Housing Tax Expenditure Review.

Understanding the framework and logic behind an evaluation is critical for assessing tax expenditures; further, the logic of how a tax incentive should work should also be part of the conversation around its creation, so that each one is constructed in a way that allows monitoring and measuring for effectiveness. The U.S. Government Accountability Office (GAO), the primary federal agency charged with evaluating government programs, has several evaluation guides<sup>3</sup> that we used as a model for setting up an evaluation framework. Following their documentation, we developed a set of questions that should be considered when evaluating tax expenditures:<sup>4</sup>

- Is the program reaching targeted recipients as intended?
- Have feasibility or management problems emerged?
- Are desired outcomes obtained?

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<sup>1</sup> "Economic Development Tax Incentives," The Pew Charitable Trusts.

<http://www.pewtrusts.org/en/projects/economic-development-tax-incentives>

<sup>2</sup> Bell, Michael and Daniel Muhammad. "Real Property Tax Expenditures in the District of Columbia." June 13, 2013. [http://media.wix.com/ugd/ddda66\\_296dd37fb1d44464a3274f8ae62608cd.pdf](http://media.wix.com/ugd/ddda66_296dd37fb1d44464a3274f8ae62608cd.pdf), p 4.

<sup>3</sup> "Tax Expenditures: Background and Evaluation Criteria and Questions." GAO-13-167SP (Washington, D.C.: United States Government Accountability Office, November 29, 2012).

<sup>4</sup> "Designing Evaluations," GAO-12-208G. (Washington, D.C.: United States Government Accountability Office, January 2012. p 15).

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- Have there been unintended side effects/consequences?
- Do outcomes differ across approaches/components, providers, or subgroups?
- Are resources being used efficiently?
- Did the program cause the desired impact?
- Is one approach more effective than another in obtaining desired outcomes?

Beyond asking these specific questions of a provision and whether it is meeting its goals, GAO notes that broader questions related to the criterion for assessing good tax policy should also be applied to tax expenditures. These include fairness, economic efficiency, transparency, simplicity, and administrability.<sup>5</sup>

In a report for the New York State Tax Reform and Fairness Commission on evaluating business tax incentives (another term often applied to tax expenditures for businesses), Marilyn M. Rubin and Donald Boyd explain the principles and also how they relate to tax incentives:

“Six widely accepted principles against which to judge tax policies are economic neutrality, equity, adequacy, simplicity, transparency, and competitiveness. An economically neutral tax does not influence economic behavior — individuals and businesses make decisions based on economic merit rather than tax implications. An equitable system treats similarly situated taxpayers similarly. An adequate tax system raises enough revenue to support desired government services and investments. A simple and transparent system is easy to understand, relatively inexpensive for taxpayers to comply with, and relatively inexpensive for the government to administer. A competitive tax system does not impede the ability of companies to compete with those located outside the state and does not limit the state’s ability to attract new business.

Almost by definition, business tax incentives violate these principles. Their explicit goal is to alter decisions, encouraging more of a particular activity in a state or a given area than private markets would undertake absent the incentives. Depending on the activity, this may be appropriate, but it places great responsibility on public officials to understand how the market is “wrong” and how the tax system can fix it. By lowering taxes for some taxpayers while keeping them higher for others, incentives may treat similarly situated taxpayers differently and can make it harder to raise adequate revenue with minimum public resistance. Finally, myriad eligibility rules and credit calculations violate the simplicity principle for taxpayers and tax collectors.”<sup>6</sup>

While their report is focused on business tax incentives, the reality they describe applies to most tax incentives, even if they are focused on social, rather than economic goals. Rubin and Boyd posed a list of questions to ask about each tax incentive that incorporates both elements from GAO’s questions as well as the criterion for good tax policy.

- What is the purpose of the tax credit?
- Assuming the purpose is achieved, is the tax credit good policy?
- How does the credit relate to other state programs?
- Is a credit more effective at meeting its goals than a spending program would be?
- Is a credit more effective at meeting those goals than more-general tax reduction would be?
- What are the consequences for the state budget of the credit?<sup>7</sup>

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<sup>5</sup> “IRS Data Available for Evaluations Are Limited,” GAO-13-479. (Washington, D.C.: United States Government Accountability Office, May 30, 2013. P. 5).

<sup>6</sup> Rubin, Marilyn and Donald Boyd. “New York State Business Tax Credits: Analysis and Evaluation.” November 2013. Pg 1-2. [http://www.capitalnewyork.com/sites/default/files/131115\\_\\_Incentive\\_Study\\_Final\\_0.pdf](http://www.capitalnewyork.com/sites/default/files/131115__Incentive_Study_Final_0.pdf)

<sup>7</sup> Ibid, p 96.



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Answering each of these questions about a tax incentive would represent a thorough evaluation. However, time and resource constraints, and a lack of data, limited the level of detail into which we could delve for the tax provisions for this report.

Another issue to consider when evaluating a policy includes asking what might have happened if the policy did not exist, (also a ‘counterfactual’ or ‘alternative history’). Short of estimating an econometric model that includes an array of related variables, we cannot isolate the impacts of a specific policy. However, qualitatively examining contextual events and assessing broad indicators about the things that this policy is trying to change (for example, if homeownership is a goal, it is useful to know the trend in this area) can be useful in the absence of data on the specific policy. Finally, the question that the last few questions in the list above are directed at answering is ‘what was the opportunity cost of a policy’? For example, what else could have been done with the same amount of government resources?

### **Methodology: How this review was conducted**

In order to complete the first tax expenditure review of housing-related tax expenditures in 2015, ORA used the groupings of the District’s tax expenditures by policy area that is found in previous Tax Expenditure Reports. This classification that largely mirrors the categories used by the Joint Committee on Taxation (JCT), and it continued to serve as the basis for selecting policy areas for the current review. After identifying the tax expenditures in the areas of environment, public safety, transportation, and tax administration-related tax expenditures, we determined that there were few enough to include each of them in the report and present the data we have available.

Additionally, two new tax expenditures related to the environment were added to this report that have not been presented in previous Tax Expenditure Reports. These are Individual tax expenditures, rather than Categorical ones. Categorical tax expenditures are those which any person or entity who is eligible may take. Individual tax expenditures, for the purposes of this report, define those provisions for which an individual entity or organization was awarded a tax preference based on specific circumstances.

While there was less to be done for each policy area given the short list of tax expenditures in each area, the current report did involve a review of the following documents, as relevant:

- D.C. Code enacting the provision;
- Tax Expenditure Reports and other relevant ORA reports, such as Tax Facts, for information or data;
- Fiscal Impact Statements;
- Tax Abatement Financial Analyses

Additionally, we:

- Reached out to representatives of each agency involved in the policy areas of the report, and spoke with representative(s) from the District’s Department of Energy and Environment and the Department of Transportation;
- Reviewed data available for each tax expenditure;
- Analyzed tax expenditures in each policy area as a group, after they were presented individually.

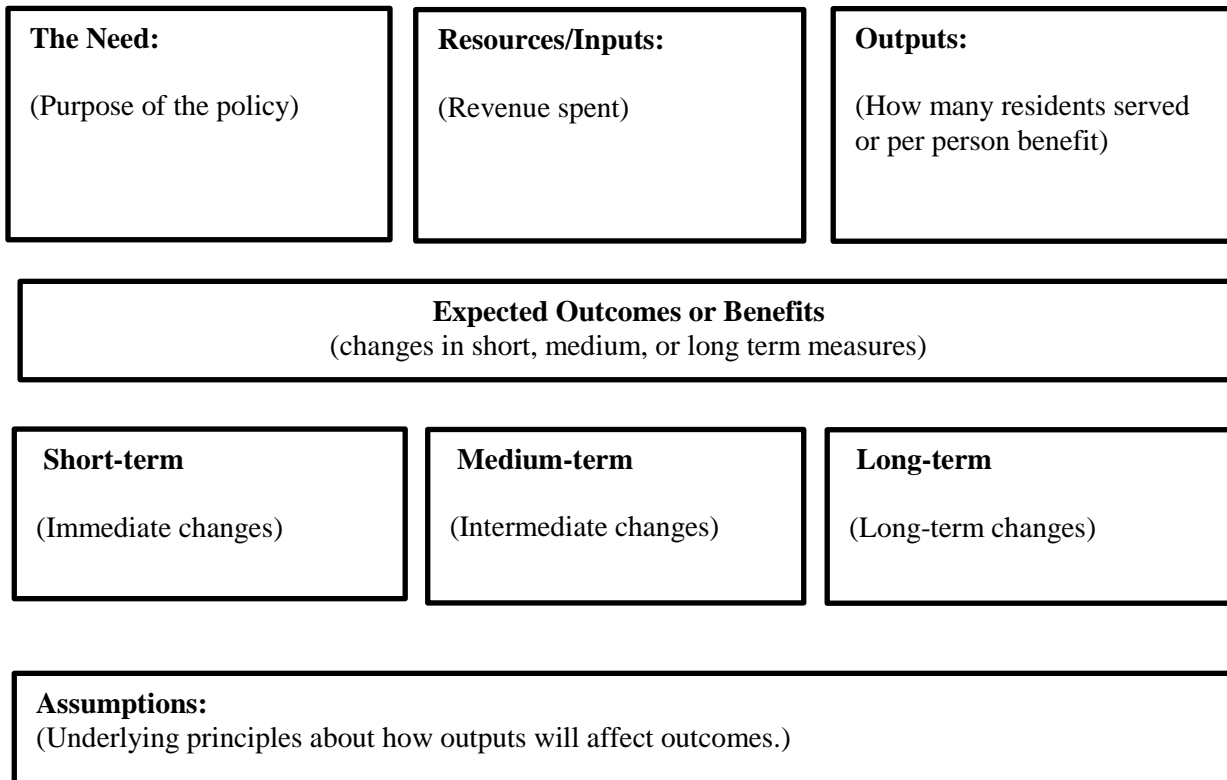
Below is a logic model that we use in this report to organize each tax expenditure in order to assist with evaluation. Such a model is frequently used to evaluate programs and policy. This serves as a visual tool to quickly summarize the need for the policy, the inputs (what the District is contributing toward the need

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with this provision), the outputs (what citizens receive due to this policy), and what various short-, medium-, and long-term outcomes are (what effect or impact did the policy have). The model also includes assumptions that are made in filling in the logic model.

It is important to point out that for this review, multiple barriers, including a lack of data, prevented us from assessing *actual* outcomes. Instead, we have filled in the outcome boxes with *expected* outcomes or benefits and where possible provided any assumptions underlying the policy and these expected outcomes. These statements are not empirically proven facts, rather, they provide the logic behind why the policy was enacted and what it intends to do. Ideally, these statements would be part of the implementing legislation when a policy is first enacted, and oftentimes they are in the case of the tax expenditures that we reviewed. Having this information is the first step in evaluating outcomes, and in lieu of procuring the data required to adequately evaluate each provision, we have filled in these assumptions in the logic models as a starting point for an interim assessment.

**Sample Logic Model:**



## *Part I: Introduction*

Evaluating the success of the District's tax expenditures primarily entails examining how they meet the goals set out for them when they were created. This individual level analysis is the basis of this report and will be laid out in detail in the pages that follow. However, another important question to ask when examining the tax preferences in a single policy area is whether these tools are also helping the District meet its overall goals and needs in that area. Thus, each section provides a brief overview of the District's policy goals in each area: environment, public safety, and transportation. This information is presented to provide a broader context within which to view the findings of this report.

## **Part II: Review of the District's Environment-Related Tax Expenditures**

**Overview of the District’s Environmental Goals**

The following section provides a brief overview of the current environmental policy goals of the District government. The District has several planning documents relating to the use of its environment. The Sustainable D.C. Plan, created under former Mayor Gray and released in April 2013, contains goals in the areas of jobs, health, food, nature, climate, water, energy, built environment, transportation, waste, and a green economy. Further, the District’s Comprehensive Plan, which was last released in 2006 and last amended in 2011, contains various elements relating to the environment.<sup>8</sup> Other plans that complement the environment-related goals are listed in the box below.

**Table 1: D.C. Environment-Related Plans and Goals**

<b>D.C. Environment-Related Plans</b>	<b>Brief Summary of Plan’s Environment-Related Goals</b>
Sustainable D.C. Plan	<ul style="list-style-type: none"> <li>• Cut greenhouse gas emissions;</li> <li>• Cut energy usage;</li> <li>• Increase healthy tree canopy and nature space;</li> <li>• Produce less waste, consume less and reuse everything else;</li> <li>• District waterways fishable and swimmable;</li> <li>• Use portion of our landscape to filter or capture rainwater for reuse</li> </ul>
District’s Comprehensive Plan; Chapters 6, 8, and 13	<ul style="list-style-type: none"> <li>• Restore the city’s tree canopy and green infrastructure;</li> <li>• Improve our rivers, streams and stream valleys;</li> <li>• Reduce erosion and storm water run-off;</li> <li>• Sustain plant and animal habitat;</li> <li>• Conserve water and energy;</li> <li>• Expand recycling;</li> <li>• Encourage green building techniques; and</li> <li>• Reduce air pollution</li> </ul>
Anacostia 2032 Plan	<ul style="list-style-type: none"> <li>• Make the Anacostia River swimmable and fishable by 2032</li> </ul>
Climate Action Plan	<ul style="list-style-type: none"> <li>• Reduce the carbon footprint of the District government and the community as a whole</li> </ul>
D.C. Clean Rivers Project	<ul style="list-style-type: none"> <li>• Long-term plan for controlling combined sewer overflows</li> </ul>
DDOT Climate Change Adaptation Plan	<ul style="list-style-type: none"> <li>• A plan to adapt D.C.’s transit system to a changing climate</li> </ul>
Wildlife Action Plan	<ul style="list-style-type: none"> <li>• A census of wildlife found in the District, including those species in greatest need of conservation</li> </ul>

Source: ORA Compilation.

The District’s work on the environment is organized into similar clusters in the legislative and executive branches. The D.C. Council’s Committee on Transportation and the Environment is responsible for matters relating to environmental protection regulation and policies; highways, bridges, traffic, vehicles, and other transportation issues; the regulation of taxicabs; maintenance of public spaces; recycling; waste

<sup>8</sup> Source: The District’s Comprehensive Plan, Chapters 6; 8; and 13. A planning amendment cycle is underway and updates are scheduled to be released in 2018.

## *Part II: Review of Environment-Related Tax Expenditures*

management; water supply and wastewater treatment; and maintenance of public spaces and public parks and recreation.

The primary agency involved in carrying out the environment and natural resource goals and policies in the District is the Department of Energy and Environment (DOEE).<sup>9</sup> DOEE's mission is "to improve the quality of life for the residents and natural inhabitants of the nation's capital by protecting and restoring the environment, conserving our natural resources, mitigating pollution, increasing access to clean and renewable energy, and educating the public on ways to secure a sustainable future."<sup>10</sup> DOEE carries out this mission by "enforcing environmental regulations; monitoring and assessing environmental risks; developing energy and environmental policies; issuing permits; and providing residents and local businesses with funding, technical assistance, and information on initiatives designed to ensure a more resilient and sustainable city."<sup>11</sup>

### **Summary of Environment Goals**

In short, the District's varied environmental goals revolve around conserving the environment and treating its natural resources in a sustainable way. There are specific goals relating to improving the quality of the air, soil, and water and minimizing the human impact on these resources so that they are available to District residents for years to come.

The District's environment-related tax expenditures are one of various policy tools for implementing environment-related goals, and a review of them should be viewed and assessed within the broader context of the District's work in this area.

### **Environment-Related Categorical Tax Expenditures**

Categorical environment-related tax provisions, or those which anyone who is eligible may take advantage of, represent roughly \$7 million in foregone revenue in FY16. There are 10 categorical environment-related tax expenditure provisions, which generally support:

trash collection (1);  
alternative fuel vehicle conversion (2);  
brownfield cleanup and revitalization (5); and  
solar and renewable energy (2)

The total estimate of revenue foregone for FY16 is based on two tax expenditures, the real property tax credit for condo and cooperative trash collection and the new personal income credit for alternative fuel vehicle conversion and infrastructure. The other eight environment-related tax expenditures have no estimated revenue loss projected in FY16. Five of the remaining tax incentives aim to encourage landowners to clean up blighted property by restoring brownfields so that the land can be reused. The final two tax incentives in this category focus on the use of cleaner energy, such as solar, and available information indicates they have not been used as of yet, but may be used in the coming years.

Table 2 below presents all environment-related tax provisions, the tax they relate to, the type of tax expenditure, the date enacted, the provision in the D.C. Code, the administering agency, and an estimate

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<sup>9</sup> The Department of Parks and Recreation, the Department of Public Works and the Office of Zoning also play a smaller role in carrying out environment-related policies.

<sup>10</sup> DOEE Mission Statement: <https://doee.dc.gov/page/about-doe>.

<sup>11</sup> Ibid.

*Part II: Review of Environment-Related Tax Expenditures*

of revenue foregone for FY16. This table is presented with the largest (in terms of revenue foregone) tax expenditure provision at the top. The individual analysis below primarily follows this order.

**Table 2: Categorical Environment-Related Tax Expenditures**

<b>Name of Tax Expenditure</b>	<b>Tax</b>	<b>Type of Provision</b>	<b>Date Enacted</b>	<b>D.C. Code</b>	<b>Agency</b>	<b>FY16 Revenue Loss Estimate (\$000)</b>
Condominium and cooperative trash collection	Real Property	Credit	1990	§ 47-872 and § 47-873	OTR	\$6,305
Alternative fuel vehicle conversion and infrastructure credit (both personal and business income; estimate is for personal)	Income	Credits	2015	§ 47-1806.12-13; § 47-1807.10-11	OTR	\$661
Brownfield revitalization and cleanup (implementing regulations not written)	Real Property	Credit	2001	§ 8-637.01	DOEE	\$0
Brownfield revitalization and cleanup (both personal and business income; implementing regulations not written)	Income	Credits	2001	§ 8-637.01	DOEE	\$0
Environmental savings account contributions and earnings (both personal and business income; implementing regulations not written)	Income	D.C. Subtractions from FAGI	2001	§ 8-637.03	DOEE	\$0
Solar energy systems (unused as of yet)	Personal Property	Exemption	2013	§ 47-1508(a)(11)	OTR	\$0
Cogeneration systems (Expected use in FY17)	Personal Property	Exemption	2013	§ 47-1508(a)(12)	OTR	\$0
<b>TOTAL</b>						<b>\$6,966</b>

Source: ORA Compilation from 2016 Tax Expenditure Report with some updates from more recent data.

Note: Summing tax expenditures does not take into account possible interactions among individual tax expenditures, so it does not produce an exact estimate of the revenue that would be gained were any specific provision removed.

*Part II: Review of Environment-Related Tax Expenditures*

**Condominium and cooperative trash collection**

*Real Property Tax Credit*

District of Columbia Code: D.C. Official Code § 47-872 (condominiums) and § 47-873 (cooperatives)  
 Sunset Date: None  
 Year Enacted: 1990

	2011	2012	2013	2014	2015	2016	2017	2018
<b>Estimated Revenue Foregone (\$000) Fiscal Year</b>	\$4,931	\$5,422	\$5,595	\$5,864	\$6,049	\$6,305	\$6,463	\$6,624
<b># of Beneficiaries Tax Year</b>	50,800	53,680	54,318	55,852	56,537	58,925	n/a	n/a

Source: ORA Analysis of D.C. Real Property Tax Data. These estimates represent revisions to those in the 2016 Tax Expenditure Report based on updated data.

**DESCRIPTION:** Owners of condominium units and cooperative dwelling units may qualify for a trash collection credit against their real property tax liability if they pay for garbage collection instead of receiving city garbage service. The credit, which was \$107 for tax years 2015 and 2016, is adjusted annually for inflation.<sup>12</sup>

In order to qualify for the credit, the property must be occupied by the owner and used for non-transient residential purposes. In addition, the property must be located in a condominium or cooperative housing building with more than four dwelling units.

**PURPOSE:** The purpose of the credit is to help defray the costs of garbage collection for real property owners who do not receive trash collection services from the D.C. government.

**IMPACT:** Condominium or cooperative housing owners who pay for garbage collection benefit from this credit. In tax year 2015, more than 56,000 homeowners received this credit.

Given that the city provides trash collection for all residents who own single-family homes that are not in condo or coop buildings, this provision provides horizontal equity by putting all condo and coop homeowners on more equal footing with the rest of District homeowners, in regards to trash collection.

<sup>12</sup> Based on CPI adjustment factors and rounding, the amount did not increase for 2016. The recent trash credit amounts were: 2011: \$98; 2012: \$101; 2013: \$103; 2014: \$105; 2015: \$107; 2016: \$107.



**Condominium and cooperative trash collection**

**The Need:**

The purpose is to help defray the costs of garbage collection for real property owners who do not receive trash collection services from the D.C. government, providing horizontal equity among residents who own their homes.

**Resources/Inputs:**

Residents owning and living in a condo or coop with more than four units may receive a trash credit. In 2015 and 2016, the tax credit applied to property tax bills was \$107.

**Outputs:**

From 2011 to 2015, an average of 54,237 residents took the trash credit per year, for an average annual cost to the District of \$5,572,271. The five-year total of revenue foregone due to the credit was \$27,861,353.

**Expected Benefits**

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

**Short-term:**

**Medium-term:**

**Long-term:**

**Assumptions:**

*Part II: Review of Environment-Related Tax Expenditures*

**Alternative fuel vehicle conversion and infrastructure credit (personal and business income)**

*Income Tax Credits*

District of Columbia Code: D.C. Official Code § 47-1806.12 - 13 and § 47-1807.10 - 11  
 Sunset Date: None  
 Year Enacted: 2015

<b>Estimated Revenue Foregone (\$000)</b>								
<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Business Income</b>	NA	NA	NA	minimal	minimal	\$0	\$0	\$0
<b>Personal Income</b>	NA	NA	NA	\$0	\$0	\$661	\$842	\$1,078
<b>TOTAL</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>minimal</b>	<b>minimal</b>	<b>\$661</b>	<b>\$842</b>	<b>\$1,078</b>

**DESCRIPTION:** A business or individual can claim a nonrefundable credit in the amount of 50 percent of the equipment and labor costs directly attributable to the purchase and installation of alternative fuel storage and dispensing or charging equipment on a qualified alternative fuel vehicle refueling property or in a qualified private residence. The maximum credit that can be claimed is \$1,000 per vehicle charging station for a qualified private residence, and \$10,000 per qualified alternative fuel vehicle refueling property or vehicle charging station for a qualified alternative fuel vehicle refueling property.

The equipment and labor cost to claim the credit cannot include any land purchases (or land access) to be used as a qualified alternative fuel vehicle refueling property, purchase of an existing qualified alternative fuel vehicle refueling property, or construction or purchase of any structure. The credit claimed cannot exceed the taxpayer's tax liability for the year. If the amount of the tax credit exceeds the tax liability, the excess amount of the credit can be rolled over for up to 2 tax years.

A nonrefundable tax credit of 50 percent of the labor costs directly attributable to the cost of converting a motor vehicle licensed in the District that operates on petroleum diesel or petroleum derived gasoline to a motor vehicle that operates on an alternative fuel can be claimed by a tax filer with a maximum credit of \$19,000 per vehicle.

Alternative fuel is fuel used to power a motor vehicle that includes at least 85 percent ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, biodiesel (not kerosene), electricity provided by a vehicle-charging station, or hydrogen.<sup>13</sup> The tax credit is available for tax years beginning January 1, 2014 through December 31, 2026.

Federal Income Tax Credits exist for the installation of alternative fuel systems. The infrastructure development provision was part of the 2005 Energy Policy Act and provides a 30 percent federal income tax credit, up to \$30,000 per property, to install alternative fuel dispensing systems.

Maryland has a rebate program for electric vehicle supply equipment (EVSE) purchase and installation of 50 percent of cost up to \$900. The qualified EVSEs must be placed in service on or after July 1, 2014, but before June 30, 2017. Individuals are limited to one (1) rebate. Virginia currently does not have any incentives.

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<sup>13</sup> § 47-1806.12

*Part II: Review of Environment-Related Tax Expenditures*

**IMPACT:** D.C. residents will benefit from the credit as the tax expenditure will transform the available fuel options for District residents, allowing them to choose cleaner, greener options for fueling their vehicles. Data available for tax year 2014 show that 3 businesses claimed credits under the Corporate Franchise Tax and Unincorporated Franchise Tax, and 1 business claimed a credit in 2015.

**PURPOSE:** The legislation aims to radically transform the fuel options available in the District with initiatives that would facilitate a rapid advance in the diversity of fuel sources available in the District.

**Alternative fuel vehicle conversion and infrastructure credit (personal and business income)**

**The Need:**

D.C. has goals of reducing its carbon footprint by emitting fewer greenhouse gases that are associated with fossil fuels traditionally used to power vehicles, as well as improving air quality.

**Resources/Inputs:**

Businesses or individuals may claim a maximum credit of \$1,000 per vehicle charging station, and \$10,000 per qualified alternative fuel vehicle refueling property or vehicle charging station for a qualified alternative fuel vehicle refueling property.

**Outputs:**

Data available show that only a handful of taxpayers have claimed these credits in 2014 and 2015, for a minimal revenue loss thus far.

**Expected Benefits**

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

**Short-term:**

This tax incentive will encourage residents to switch from using fossil fuels to alternative sources of fuel by helping defray the costs of the conversion.

**Medium-term:**

This credit will contribute to a transformation of the fuel options available in the District, allowing residents to choose cleaner, greener options for fueling their vehicles.

**Long-term:**

In the long run, less reliance on fossil fuels will contribute to D.C.'s sustainability and climate goals of reducing greenhouse gas emissions associated with fossil fuels and the reduction of the city's carbon footprint.

**Assumptions:**

Taxpayers who may not have made the conversion to an alternative source of fuel but are considering it will now do so because of the tax credit.

*Part II: Review of Environment-Related Tax Expenditures*

**Brownfield revitalization and cleanup**

*Income Tax Credits and Real Property Tax Credits*

District of Columbia Code: D.C. Official Code § 8-637.01  
 Sunset Date: None  
 Year Enacted: 2001

<b>Estimated Revenue Foregone (\$000)</b>								
<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Income Tax Credits:</b>								
<b>Business Income</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Personal Income</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>Estimated Revenue Foregone (\$000)</b>								
<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Property Tax Credits:</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

**DESCRIPTION:** The Mayor is authorized to submit proposed rules to the Council to establish business franchise tax credits for businesses that clean up and redevelop “brownfields,” which are defined as “abandoned, idled property or industrial property where expansion or redevelopment is complicated by actual or perceived environmental contamination.”<sup>14</sup> The total credits awarded to a business would be capped at 100 percent of the costs of cleaning up and 25 percent of the costs of developing the brownfield.

A review did not identify similar income tax incentives offered by Maryland or Virginia, but Maryland authorizes local governments to provide property tax credits equal to 50 to 70 percent of the increase in property taxes for property owners who participate in the state’s Voluntary Cleanup Program. The tax credits may be granted for five years, or 10 years if the property is in an enterprise zone. Montgomery County and Baltimore City are among the jurisdictions that offer the property tax credits.

**PURPOSE:** The intent of this tax expenditure is to provide incentives for businesses to clean up brownfields voluntarily, which would in turn reduce public health risks and promote economic development by encouraging the reuse of contaminated properties.

**IMPACT:** Businesses that own contaminated property are the intended beneficiaries of this provision, which is also designed to have spillover benefits to society by reducing environmental risks and contaminants while promoting the redevelopment of brownfields. Nevertheless, the credits have not been offered because implementing regulations have not been proposed.<sup>15</sup> DOEE officials have informed us that the statute needs to be amended before the regulations can be written, and DOEE is currently working on that process.

<sup>14</sup> See D.C. Official Code § 8-631.02(2).

<sup>15</sup> If the Mayor proposed regulations, the Council would have 45 days to review the rules (excluding Saturdays, Sundays, legal holidays, and periods of Council recess), and if the Council did not act within this period, the rules would be deemed approved.

**Brownfield revitalization and cleanup (personal and business income and property tax credits)**

**The Need:**

Brownfield, or blighted, property should be cleaned up and converted to a different use, and buyers/investors need an incentive to purchase this land.

**Resources/Inputs:**

Implementing regulations have not been written, thus no resources have yet been spent on these tax expenditures.

**Outputs:**

There are currently no recipients of these tax expenditures.

**Expected Benefits**

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

**Short-term:**

Cleaning up brownfield land will improve the health and quality of the land, as well as its appearance.

**Medium-term:**

Further, cleaning up brownfield land will open up the possibility of using the land for other goals in the future.

**Long-term:**

Revitalized land could be used for any number of productive purposes, which may contribute to the District's economy and revenue base, or to goals such as preserving green space, or providing affordable housing.

**Assumptions:**

Offering a tax incentive for the cleanup of brownfields is expected to encourage some persons or businesses to engage in economic activity that would not have otherwise occurred.

*Part II: Review of Environment-Related Tax Expenditures*

**Environmental savings account contributions and earnings**

*Income Tax Subtractions*

District of Columbia Code: D.C. Official Code § 8-637.03  
Sunset Date: None  
Year Enacted: 2001

<b>Estimated Revenue Foregone (\$000)</b>								
<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Business Income</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Personal Income</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**DESCRIPTION:** An individual, partnership, corporation, trust, or government agency may establish an environmental savings account (ESA) in order to accumulate funds for the cleanup or redevelopment of brownfields, which are defined as “abandoned, idled property or industrial property where expansion or redevelopment is complicated by actual or perceived environmental contamination.”<sup>16</sup> Funds deposited in an ESA, and the interest earned on the funds, are exempt from District of Columbia income tax. Any funds that are withdrawn and not used for the cleanup and redevelopment of a contaminated property will be subject to the income tax and a 10 percent penalty.

A review did not identify similar income tax incentives offered by Maryland or Virginia, but Maryland authorizes local governments to provide property tax credits equal to 50 to 70 percent of the increase in property taxes for property owners who participate in the state’s Voluntary Cleanup Program. The tax credits may be granted for five years, or 10 years if the property is in an enterprise zone. Montgomery County and Baltimore City are among the jurisdictions that offer the property tax credits.

**PURPOSE:** The purpose of these provisions is to provide incentives for individuals and organizations to clean up brownfields voluntarily, which would in turn reduce public health risks and promote economic development by encouraging the reuse of contaminated properties.

**IMPACT:** Owners of property that is contaminated by hazardous substances may benefit from this provision. The subtraction would be claimed on a line of the tax form that includes other subtractions; therefore, there are no data on use of the provision or associated revenue loss. The accounts are not being used as there are no regulations implementing the law. DOEE officials have informed us that the statute needs to be amended before the implementing regulations can be written, and DOEE is currently working on that process.

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<sup>16</sup> See D.C. Official Code § 8-631.02(2).

**Environmental savings account contributions and earnings**

**The Need:**

Brownfield, or blighted, property should be cleaned up and converted to a different use, and buyers/investors need an incentive to purchase this land; ESAs will help.

**Resources/Inputs:**

Implementing regulations have not been written, thus no resources have yet been spent on these tax expenditures.

**Outputs:**

There are currently no recipients of these tax expenditures.

**Expected Benefits**

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

**Short-term:**

Encouraging ESAs will lead to the cleaning up of brownfield land, which will improve the health and quality of the land, as well as its appearance.

**Medium-term:**

Further ESAs to promote the cleaning up of brownfield land will open up the possibility of using the land for other goals in the future.

**Long-term:**

Land that is revitalized as a result of an ESA could be used for any number of productive purposes, which may contribute to the District's economy and revenue base, or to goals such as preserving green space, or providing affordable housing.

**Assumptions:**

Offering a tax incentive for ESAs, which would lead to the cleanup of brownfields, is expected to encourage some persons or businesses to engage in this activity that would not have otherwise done so.

*Part II: Review of Environment-Related Tax Expenditures*

**Solar energy systems**

*Personal Property Tax Exemption*

District of Columbia Code: D.C. Official Code § 47-1508(a)(11)  
Sunset Date: None  
Year Enacted: 2013

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

**DESCRIPTION:** Solar energy systems are exempt from the personal property tax. “Solar energy” is defined as “radiant energy, direct, diffuse, or reflected, received from the sun at wavelengths suitable for conversion into thermal, chemical, or electrical energy, that is collected generated, or stored for use at a later time.”<sup>17</sup>

The section of D.C. Code authorizing this exemption states that “Systems using exclusively solar energy as defined in § 34-1431(14)); provided, that, notwithstanding any other provision of law, the CFO shall transfer \$120,000 from the certified revenues deposited in the Renewable Energy Development Fund established by § 34-1436 to the unrestricted fund balance of the General Fund of the District of Columbia and shall recognize the \$120,000 as local funds revenue in fiscal year 2013 and in each subsequent fiscal year.” As of yet, this transfer has not occurred as there is no indication that the exemption has been taken.

**PURPOSE:** The purpose of the exemption is to encourage the installation of large, commercial solar energy systems and thereby help the District to achieve its target of using at least 2.5 percent of energy from solar sources by 2023.<sup>18</sup>

**IMPACT:** Proponents argue that solar energy systems are not financially viable without the personal property tax exemption, especially in light of the significant capital investment that the systems require. Nevertheless, a “Tax Abatement Financial Analysis” issued by the Chief Financial Officer found that, “Because District renewable energy portfolio standards, along with Federal renewable energy incentives currently in place, are sufficient to make investment in solar systems a profitable investment ... solar energy exemptions are not generally necessary in order for solar power systems to be developed in the District.”<sup>19</sup>

Neither the Office of Tax and Revenue nor the Department of Energy and Environment had records of any entities having taken this exemption.

<sup>17</sup> See D.C. Official Code § 34-1431(14).

<sup>18</sup> See Council of the District of Columbia, “Report on Bill 19-749, the ‘Energy Innovation and Savings Amendment Act of 2012,’” dated October 24, 2012, pp. 2, 5-6.

<sup>19</sup> Office of the Chief Financial Officer, “Tax Abatement Financial Analysis: ‘Energy Innovation and Savings Amendment Act of 2012,’” dated June 29, 2012, p. 1.



**Solar energy systems**

**The Need:**

Large, commercial solar energy systems would help reduce the District's reliance on nonrenewable energy sources, thereby reducing energy costs and impact on the environment.

**Resources/Inputs:**

Implementing regulations have not been written, thus no resources have yet been spent on this tax expenditure.

**Outputs:**

There are currently no recipients of this tax expenditure.

**Expected Benefits**

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

**Short-term:**

A personal property tax exemption will help defray the cost for a company that chooses to install a commercial solar energy system, making it more likely to do so.

**Medium-term:**

The use of solar energy systems would help reduce the District's reliance on nonrenewable energy sources, thereby reducing energy costs and impact on the environment.

**Long-term:**

The use of solar energy systems will contribute to D.C.'s sustainability and climate goals of reducing greenhouse gas emissions associated with fossil fuels and the reduction of the city's carbon footprint.

**Assumptions:**

Businesses will be more likely to invest in often costly large, commercial solar energy systems, which would help reduce the District's reliance on nonrenewable energy sources, if there is a tax incentive to doing so.

*Part II: Review of Environment-Related Tax Expenditures*

**Cogeneration systems**

*Personal Property Tax Exemption*

District of Columbia Code: D.C. Official Code § 47-1508(a)(12)  
Sunset Date: None  
Year Enacted: 2013

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	NA	NA	NA	NA	NA	NA	\$1,370	\$1,370

DESCRIPTION: Cogeneration systems, which are defined as systems that produce both electric energy and steam or forms of useful energy (such as heat) that are used for industrial, commercial, heating, or cooling purposes, are exempt from the personal property tax beginning on October 1, 2016.

PURPOSE: The purpose of the exemption is to encourage the development of cogeneration systems and thereby promote more efficient forms of energy use. Although traditional power sources are only 33 percent efficient, meaning that they waste approximately two-thirds of the energy they produce, cogeneration systems have an efficiency rate of 60 to 80 percent.<sup>20</sup>

IMPACT: The exemption is expected to benefit a cogeneration project planned for a large development on the Southwest waterfront, which was set for a phased delivery beginning in 2016. (As of the time of this publication, we have not heard back to a request for an update on this project.) Proponents argue that cogeneration systems are not financially viable without the personal property tax exemption, especially in light of the significant capital investment that the systems require.

Nevertheless, a “Tax Abatement Financial Analysis” (TAFA) issued by the Chief Financial Officer found that, “(C)ogeneration exemptions are ... unlikely to be necessary, as cogeneration systems generally provide a reasonable return on investment .” The TAFA pointed out that the long-term energy savings resulting from cogeneration can justify the initial up-front capital investment.<sup>21</sup>

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<sup>20</sup> Council of the District of Columbia, “Report on Bill 19-749, the ‘Energy Innovation and Savings Amendment Act of 2012,’” dated October 4, 2012, pp. 2, 6-7.

<sup>21</sup> Office of the Chief Financial Officer, “Tax Abatement Financial Analysis: ‘Energy Innovation and Savings Amendment Act of 2012,’” dated June 29, 2012, pp. 1-2.

**Cogeneration systems**

**The Need:**

Traditional power sources are only 33 percent efficient, meaning that they waste approximately two-thirds of the energy they produce. The District would like to incentivize the use of more efficient forms of energy production.

**Resources/Inputs:**

No resources have yet been spent on this tax expenditure to date.

**Outputs:**

There are currently no recipients of this tax expenditure.

**Expected Benefits**

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

**Short-term:**

Cogeneration systems that more efficiently produce energy would be built instead of less environmentally-friendly energy production system.

**Medium-term:**

Use of cogeneration systems would reduce the District's reliance on nonrenewable energy sources.

**Long-term:**

Use of cogeneration systems would reduce energy costs and impact on the environment over the long run, thus contributing to D.C.'s sustainability and climate goals of reducing greenhouse gas emissions associated with fossil fuels and reducing its carbon footprint.

**Assumptions:**

The personal property tax exemption will encourage the development of cogeneration systems and thereby promote more efficient forms of energy use.

**Individual Environment-Related Tax Expenditures**

Individual tax expenditure provisions are provisions resulting from legislation passed to provide a tax benefit for a specific resident or entity, in contrast to categorical provisions that are available to whoever is eligible (and outlined in the previous section).

Previously, individual provisions that are environment-related have not been compiled in the District, and this list represents the first attempt to categorize them. As such, it is a work in progress and additional provisions may be added in the future as appropriate. In an initial review, ORA identified two individual provisions largely intended to preserve green space. There are other property tax exemptions relating to the use of the land, such as property tax exemptions for community gardens, and they will be listed under the category of “social policy” which will be reviewed in a future report.

Projects that receive a property tax exemption have to file an annual use report in accordance with D.C. Official Code § 47-1007 documenting that they continue using the property for its intended, tax-exempt purpose. These reports are on file for the two properties identified below.

The total estimated foregone revenue for all individual environment-related tax expenditures in FY16 is \$94,000.<sup>22</sup> Table 3 below presents both individual environment-related tax provisions, the tax they relate to, the type of tax expenditure, the date enacted, the provision in the D.C. Code, the administering agency, and their estimated revenue foregone for FY16. The section that follows describes the District’s two individual environment-related tax expenditures identified thus far.

**Table 3: Listing of Environment-Related Individual Tax Expenditures**

<b>Name of Tax Expenditure</b>	<b>Tax</b>	<b>Type of Provision</b>	<b>Date Enacted</b>	<b>D.C. Code</b>	<b>Agency</b>	<b>FY16 Revenue Loss Estimate (\$000)</b>
Rosedale Conservancy, lot 817 in square 1954	Real Property	Exemption	2003	§ 47-1056	OTR	\$76
Tregaron Conservancy, Lots 848, 857, 859, and 860, Square 2084	Real Property	Exemption	2008	§ 47-1077	OTR	\$19
<b>TOTAL</b>						<b>\$95</b>

<sup>22</sup> Summing tax expenditures does not take into account possible interactions among categorical tax expenditures and therefore does not produce an exact estimate of the revenue.

*Part II: Review of Environment-Related Tax Expenditures*

**Rosedale Conservancy, lot 817 in square 1954<sup>23</sup>**

*Real Property Tax Exemption*

District of Columbia Code:	D.C. Official Code § 47-1056
Sunset Date:	None
Year Enacted:	2003

DESCRIPTION: The Rosedale Conservancy (TRC) was formed in late 2002 in order to manage three acres of “eighteenth century terraced lawns” that it refers to as Cleveland Park’s “village green.”<sup>24</sup> TRC property is located at 3501 Newark Street, NW, in square 1954. It is a nonprofit organization and qualifies as a tax-exempt 501(c)(3) by the IRS.

Based on the latest assessment value (in December 2016), and if this property were to be used for residential purposes, an estimation of the applicable tax would be \$75,916 for 2016 (\$8,931,340 x 0.0085).

PURPOSE: According to the Rosedale Conservancy Real Property Tax Exemption and Relief Act of 2003 (Law 15-11), in order to maintain its property tax exemption, the property is to remain unimproved and maintained as open space and parkland in a manner consistent with the real property's historical significance, and is reasonably accessible to the general public without charge or payment of a fee of any kind. The Rosedale Conservancy must use the property only to further its purposes as a tax-exempt entity, and is not allowed to lease the property or allow others to occupy the property.

IMPACT: Maintaining The Rosedale Conservancy as undeveloped parkland and open space contributes to the conservation of the land and the various direct and indirect benefits that come with such conservation, including the provision of a green space for residents to enjoy free of charge as well as community events such as tree plantings, Easter egg hunts, and pumpkin carvings.

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<sup>23</sup> Note: the lot number has changed from 817 to 0029.

<sup>24</sup> Rosedale Conservancy web site, accessed December 15, 2016: <http://www.rosedaleconservancy.org/about-trc/>

**Tregaron Conservancy, Lots 848, 857, 859, and 860, Square 2084.**

*Real Property Tax Exemption*

District of Columbia Code:	D.C. Official Code § 47-1077
Sunset Date:	None
Year Enacted:	2008

**DESCRIPTION:** The Tregaron Conservancy Tax Exemption and Relief Act of 2008 (Law 17–119) designated certain portions of the land owned by the Tregaron Conservancy, which is a District corporation and exempt from federal taxes, to be “exempt from District real property taxes as long as it remains unimproved (except as necessary for maintenance), is maintained as open space and parkland in a manner consistent with the real property’s historical significance and is reasonably accessible to the general public without charge or payment of a fee of any kind.”<sup>25</sup> Further, the one-time conveyance of several portions of land owned by Tregaron LP to the Tregaron Conservancy and the Washington International School (WIS) were also exempt from deed recordation and transfer taxes in order for the Tregaron Limited Partnership to donate the land to the Tregaron Conservancy and WIS.

Based on the latest assessment value (in December 2016), and if this property were to be used for residential purposes, an estimation of the applicable tax would be \$19,272 for 2016 (\$2,267,340 x 0.0085).

**PURPOSE:** The Tregaron Conservancy’s mission is to “preserve, rehabilitate and maintain Tregaron Estate’s historic landscape,” not only to hold the land as open space, but also to restore the landscape to historical designs.<sup>26</sup>

**IMPACT:** Maintaining the Tregaron Conservancy land as undeveloped parkland and open space contributes to the conservation of the land and the various direct and indirect benefits that come with such conservation, including the provision of a green space for residents to enjoy free of charge as well as community events such as tree plantings, Easter egg hunts, and summer camps for D.C. public school students.

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<sup>25</sup> Committee Report: <http://lms.dccouncil.us/Download/1611/B17-0342-COMMITTEEREPORT.pdf>

<sup>26</sup> Tregaron Conservancy web site, accessed December 15, 2016: <http://www.tregaronconservancy.org/about-us/our-mission/>

## **Summary of Environment-Related Tax Expenditures and Recommendations**

Tax expenditures are not a widely used policy tool in the area of the environment, though three of the 10 tax expenditures in this area were passed in the past five years which may indicate a changing trend. The revenue loss due to categorical environment-related tax expenditures in FY16 was less than \$7 million, almost all due to a single tax expenditure providing a credit for trash pick up to condominium and cooperative housing owners that do not receive city provided trash collection. It is too early to know whether the two newer tax expenditure provisions promoting vehicles that use alternative fuels will be widely used. Five of the tax expenditures passed in 2001 have not been available for use because DOEE has not promulgated implementing regulations. DOEE officials have informed us that the statute needs to be amended before the regulations can be written, and DOEE is currently working on that process. If these tax incentives for cleaning up brownfields and blighted lands are going to achieve their policy goals, they will need to be implemented and used by landowners.

Two tax exempt properties were identified as falling under the category of Individual Tax Expenditures provisions with primarily environmental goals. The Rosedale and Tregaron Conservancies, located in Northwest Washington, D.C., have property tax exemptions designed to ensure that this land remains undeveloped open space that is available free of charge to the public. The estimated revenue loss of these two exemptions for FY16 is \$95,000.

Because there are so few tax expenditures that are focused on the environment, the only recommendation this report makes in this area is for DOEE to promulgate regulations that are necessary to implement the Brownfield Revitalization and Cleanup Tax Credits and the tax expenditure for Environmental Savings Account Contributions and Earnings. These provisions (containing five tax expenditures in total) are related to each other and will only be successful in their policy goals if they are in use and providing taxpayers with incentives to redevelop brownfields. Overall, each of the environment-related tax expenditures generally supports the District's broader environmental goals.

**Part III: Review of the District's Public Safety Tax Expenditures**



## Overview of the District’s Public Safety Goals

The following section provides a brief overview of the District’s current public safety policy goals and several of the plans in place in this policy area. The District’s overall goals for public safety can be found in Chapter 11 of the Comprehensive Plan, which is focused on community services and facilities. The Community Services and Facilities Element provides policies and actions on police stations, fire stations, and other key facilities such as health facilities and libraries. The fourth section of this Chapter of the plan focuses on public safety and emergency preparedness, which also includes elements relating to police, fire, and emergency services and facilities.<sup>27</sup>

The District Response Plan (DRP) is one of four plans that make up the District Preparedness Framework for responding to a variety of public emergency scenarios, including enemy attacks, resource shortage, fire, natural disaster, among other emergency situations. The Metropolitan Washington Council of Governments (MWCOG) developed the District Response Plan to strengthen regional communication and coordination in the event of a regional incident, disaster, or emergency. MWCOG also has a National Capital Region Homeland Security Strategic Plan which is a unified, long-term effort to improve “all-hazards” preparedness across the region.

Mayor Bowser proposed a comprehensive safety agenda in 2015 called “Safer, Stronger D.C.” This plan includes initiatives and programs related to strengthening law enforcement tools, treating trauma in communities, creating opportunities and alternatives, and increasing police force levels.<sup>28</sup>

<b>D.C. Public Safety-Related Plans</b>	<b>Brief Summary of Plan’s Public Safety-Related Goals</b>
Chapter 11 of D.C.’s Comprehensive Plan	The Community Services and Facilities Element provides policies and actions on police stations, fire stations, and other key facilities such as health facilities and libraries. A section of this Chapter focuses on public safety and emergency preparedness, which also includes elements relating to the maintenance of police, fire, and emergency services and facilities.
District Response Plan	Provides guidance on how District agencies and departments, nongovernmental organizations, voluntary organizations, and regional and federal partners respond to disasters in the District with the goal of protecting life and property and ensuring public safety. Includes three annexes with specific threat-based plans.
Regional Emergency Coordination Plan	MWCOG plan identifies specific actions in the areas of regional communication and coordination to facilitate emergency response in the event of a regional incident, disaster, or emergency. A section of the plan is focused on law enforcement issues and activities.
Safer, Stronger D.C.	Specifics of the Mayor’s proposed plan include increasing police presence on streets and in communities as long as necessary, getting tough on the relatively small number of repeat violent offenders who continue to bring harm to the D.C. community and providing the Metropolitan Police Department (MPD) with the tools and resources it needs to protect neighborhoods.

Source: ORA Compilation.

<sup>27</sup> The District’s Comprehensive Plan, Chapter 11.

<http://plandc.dc.gov/sites/default/files/dc/sites/op/publication/attachments/Chapter%252011.pdf>

<sup>28</sup> Safer, Stronger D.C.: <http://mayor.dc.gov/page/saferstronger>.

### *Part III: Review of Public Safety Tax Expenditures*

Under the Deputy City Administrator/Deputy Mayor for Public Safety and Justice, various agencies carry out public safety work in the District, coordinated through the Homeland Security and Emergency Management Agency (HSEMA). These include the Metropolitan Police Department, Fire and Emergency Medical Services Department, the Department of Corrections, and the Department of Forensic Sciences, among others.

The high level overview of the plans listed above are the District's key documents outlining goals, plans, and best practices for maintaining the safety of residents and visitors in D.C. These plans include a focus on reducing crime and violence, as well as having the ability to best respond to, and mitigate, natural disasters, or other emergencies, such as terrorism. An evaluation of the District's public safety-related tax expenditures, which provide one avenue for implementing public safety goals, should be viewed and assessed within this broad context.

*Part III: Review of Public Safety Tax Expenditures*

**Categorical Public Safety Tax Expenditures**

Categorical provisions, or those which anyone who is eligible may take advantage of, constitute roughly \$3.5 million in the District’s foregone revenue in FY16 due to public safety-related tax expenditure provisions. There are two categorical public safety-related tax expenditure provisions, which support the following activities:

- rental assistance to police officers (1);
- correctional facilities (1)

Table 4 below presents both public safety-related tax provisions, the tax they relate to, the type of tax expenditure, the date enacted, the provision in the D.C. Code, the administering agency, and their estimated revenue foregone for FY16.

**Table 4: Categorical Public Safety Tax Expenditures**

<b>Name of Tax Expenditure</b>	<b>Tax</b>	<b>Type of Provision</b>	<b>D.C. Code</b>	<b>Agency</b>	<b>Enacted</b>	<b>FY16 Revenue Loss Estimate (\$000)</b>
Correctional Treatment Facility	Real Property	Exemption	§ 47-1002(25)	OTR	1997	\$3,523
Rental assistance to police officers	Income	D.C. Subtractions from FAGI	§ 42-2902	OTR/DCHA	1993	minimal
<b>TOTAL</b>						<b>\$3,523</b>

Source: ORA Compilation from 2016 Tax Expenditure Report.

*Part III: Review of Public Safety Tax Expenditures*

**Correctional Treatment Facility**

*Real Property Tax Exemption*

District of Columbia Code: D.C. Official Code § 47-1002(25)  
Sunset Date: None  
Year Enacted: 1997

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	\$784	\$3,495	\$3,495	\$3,422	\$3,487	\$3,523	\$3,629	\$3,738

**DESCRIPTION:** The Correctional Treatment Facility (CTF), located on Lot 804 of Square 1112, (1901 E Street, S.E.) is exempt from real property taxation on any improvements made to the site, as long as the facility on that site is used as a correctional facility housing inmates in the custody of the Department of Corrections (DOC).

The CTF, which houses all of DOC’s female and juvenile prisoners as well as some male prisoners who are a medium-security risk or lower, is owned and managed by the Corrections Corporation of America (CCA), which purchased the facility from the D.C. government in 1997 under a sale/leaseback arrangement that lasts for 20 years.

**PURPOSE:** The purpose of this provision is to maintain the tax-exempt status of the CTF following the change from government to private ownership.

**IMPACT:** The operators of the CTF benefit from this provision, which was offered as part of a larger agreement in which the D.C. government received up-front revenue from the sale of the CTF.

A 2005 study by Good Jobs First (GJF), a nonprofit that tracks subsidies and promotes accountability in economic development, found that of the 60 private prisons they studied as of 2001 (having 500 beds or more), 38 percent received property tax abatements or other reductions. Some type of subsidy (property tax or otherwise) was offered to the prisons in 17 of the 19 states included in the study. GJF notes that the prison industry did not need the local or state government assistance since it had the ability to raise money from private capital markets; further, the CCA (owner of D.C.’s CTF) is one of the two largest private prison companies and 78 percent of its facilities received subsidies, leading GJF to conclude the company was aggressive in seeking subsidies.<sup>29</sup>

<sup>29</sup> “Case Study of the Private Prison Industry.” Good Jobs First. 2005. <http://www.goodjobsfirst.org/corporate-subsidy-watch/private-prisons>.

**Correctional Treatment Facility**

**The Need:**

This provision maintains the tax-exempt status of the CTF following the change from government to private ownership under a sale/leaseback provision.

**Resources/Inputs:**

In FY16, the District's foregone revenue due to this exemption was estimated to be \$3,523,000.

**Outputs:**

The CTF facility houses all of DOC's female and juvenile prisoners as well as some male prisoners who are a medium-security risk or lower.

**Expected Benefits**

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

**Short-term:**

The tax exemption benefits the CTF by lowering CTF's costs of running the facility that houses the DOC prisoners. The District government also received a short-term benefit from the upfront revenue it received when the initial sale of the property took place in 1997.

**Medium-term:**

The tax exemption benefits the CCA/CTF by lowering CTF's costs of running the facility that houses the DOC prisoners.

**Long-term:**

The tax exemption benefits the CCA/CTF by lowering CCA's costs of running the facility that houses the DOC prisoners.

**Assumptions:**

Part III: Review of Public Safety Tax Expenditures

**Rental assistance to police officers**

*Income Tax Subtractions*

District of Columbia Code: D.C. Official Code § 42-2902  
Sunset Date: None  
Year Enacted: 1993

Estimated Revenue Foregone (\$000)								
Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018
Personal Income	Minimal	Minimal	Minimal	Minimal	Minimal	Minimal	Minimal	Minimal
<b>TOTAL</b>	<b>Minimal</b>	<b>Minimal</b>	<b>Minimal</b>	<b>Minimal</b>	<b>Minimal</b>	<b>Minimal</b>	<b>Minimal</b>	<b>Minimal</b>

Note: “Minimal” means that the foregone revenue is estimated as less than \$50,000 per year, although precise data are lacking.

DESCRIPTION: Metropolitan Police Department (MPD) officers are eligible to receive discounted rent from public and private housing providers in the District of Columbia. The D.C. Housing Authority (DCHA) is also required by law to offer public housing units at a discounted rent to MPD officers, with priority given to officers who already live in the District. The discounted rent received by officers is not counted as income in calculating District of Columbia income tax liability.

An officer who receives discounted rent must notify the Chief of Police of the terms of the discount and provide a copy of the lease or written agreement detailing the terms of the housing rental.

A review did not identify similar provisions offered in Maryland or Virginia.

PURPOSE: The purpose of this provision is to encourage MPD officers to live in the District of Columbia, particularly in public housing, and thereby promote safety and security in the communities where they live. The report on the legislation by the Council’s Committee on Housing stated that, “Effective community policing requires a police presence in our community ... Police officers who live in our community serve as a positive role model for our children, build a closer rapport with our residents, and their mere presence increases public safety.”<sup>30</sup>

IMPACT: MPD officers, and the communities where they reside, are the intended beneficiaries of this provision. According to DCHA, three MPD officers lived at DCHA properties and received discounted rent in 2013. DCHA has not returned recent requests for an updated number and the Chief of Police’s HR office did not have any information on the number of officers receiving the benefit, at either DCHA or private properties. The estimated revenue loss is minimal (less than \$50,000 per year) because of the low utilization of this provision.

<sup>30</sup> Council of the District of Columbia, Committee on Housing, Report on Bill 10-325, the “District of Columbia Metropolitan Police Housing Assistance Program and Community Safety Act of 1993,” July 20, 1993, p. 2.

**Rental assistance to police officers**

**The Need:**

To encourage MPD officers to live in the District of Columbia, particularly in public housing, and thereby promote safety and security in the communities where they live.

**Resources/Inputs:**

Discounted rents for police officers who live in public or private housing in D.C.

**Outputs:**

The latest information showed 3 police officers received discounted rent in 2013, and updated data could not be obtained for this report. As such, the policy represents less than \$50,000 per year in foregone revenue to the District, which we label as minimal.

**Expected Benefits**

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

**Short-term:**

Having more police officers living in D.C. communities will promote safety and security in the communities where they live.

**Medium-term:**

Having more police officers living in D.C. communities will promote safety and security in the communities where they live.

**Long-term:**

Having more police officers living in D.C. communities will promote safety and security in the communities where they live.

**Assumptions:**

Offering District police officers discounted rents will make it more affordable for them to live in the District, thus providing enough of an incentive for them to stay/move here.

## **Summary of Public Safety-Related Tax Expenditures and Recommendations**

Tax expenditures are not a widely used policy tool in the area of public safety. The revenue loss due to categorical public safety-related tax expenditures in FY16 was just under \$4 million, all of which is due to a property tax exemption for the land on which the D.C. Department of Corrections houses all of its female and juvenile prisoners as well as some male prisoners who are a medium-security risk or lower. This tax expenditure does support the public-safety goals of the District in that it directly relates to how the District manages its inmates.

Based on this minimal use of tax expenditures within the public safety area, this report makes no recommendations for changes to the provisions. However, regarding the use of provisions of rental assistance to police officers, the fact that it is under used may signal a need for some marketing of this provision on the police force to ensure officers know it exists. It will not achieve the policy purpose of incenting officers to live in the District if they are not using it.



**Part IV: Review of the District's Transportation Tax Expenditures**

## Overview of the District’s Transportation Goals

The following section provides a brief overview of the current transportation policy goals of the District government. The District’s overall goal for transportation, found in Chapter 4 of the Comprehensive Plan, is to: “Create a safe, sustainable, efficient multi-modal transportation system that meets the access and mobility needs of District residents, the regional workforce, and visitors; supports local and regional economic prosperity; and enhances the quality of life for District residents.”<sup>31</sup>

<b>D.C. Transportation-Related Plans</b>	<b>Brief Summary of Plan’s Transportation-Related Goals</b>
The District’s Comprehensive Plan; Chapter 4	Create a safe, sustainable, efficient multi-modal transportation system that meets the access and mobility needs of District residents, the regional workforce, and visitors; supports local and regional economic prosperity; and enhances the quality of life for District residents.
Sustainable D.C. Plan	Transportation elements of the plan include improving connectivity and accessibility through efficient, integrated, and affordable transit systems; expanding provision of safe, secure infrastructure for cyclists and pedestrians; reducing traffic congestion to improve mobility; improving air quality along major transportation routes.

Source: The District’s Comprehensive Plan, p. 4-4.

The critical transportation issues facing the District of Columbia, as noted in the Comprehensive Plan and which are echoed in the Sustainable D.C. Plan, include:

- “Expanding the city’s transit system to provide alternatives to the use of single-occupant autos;
- Enhancing the city’s corridors for all modes of transportation;
- Increasing bicycle and pedestrian connections, routes and facilities;
- Improving the efficiency of the existing transportation system;
- Investing in bridge and roadway maintenance and repair;
- Promoting transportation demand management.” (p. 4-1)

Chart 3 below presents the major transportation assets of the District for reference, and highlights just how extensive the city’s transportation networks are.

<sup>31</sup> The District’s Comprehensive Plan, p. 4-4.

**Chart 3: Transportation Assets of the District (as of 2011)**

Transportation Asset	Description
Roadway System	1,153 miles
Rail Mass Transit (Metrorail)	38 miles (total for region=106 miles) 40 stations (total for region = 86)
Bus Mass Transit (Metrobus)	Service on 298 miles of road (total for region=1,442 miles)
Sidewalks	1,647 miles of sidewalks
Bicycle Routes	
<i>On-road bicycle lanes</i>	8 miles
<i>Signed routes</i>	64 miles
<i>Off-road trails</i>	34 miles
Airports*	Two international airports (Washington Dulles International and Baltimore-Washington International) and one domestic (Reagan National)
Railroads	27.2 miles of rail line (serving Amtrak passenger rail, MARC, and Virginia Railway Express commuter rail, and CSX and Norfolk Southern freight rail). Union Station, within walking distance of the Capitol, provides connections to bus and rail transit along with shared cars, rental cars and sightseeing services.

\* These serve the District but are located outside its boundaries.

Source: The District’s Comprehensive Plan, Table 4:1, (P. 4-2) (last amended in 2011).

The primary agency implementing the District’s transportation policy is the District Department of Transportation (DDOT). DDOT’s mission is “to enhance the quality of life for District residents and visitors by ensuring that people, goods, and information move efficiently and safely, with minimal adverse impact on residents and the environment.” The Washington Metropolitan Area Transit Authority (WMATA) oversees the Metro. WMTATA’s Board of Directors has eight voting and eight alternate directors; D.C., Maryland, Virginia, and the federal government each appoint two voting members and two alternates.

## **Categorical Transportation Tax Expenditures**

Categorical provisions, or those which anyone who is eligible may take advantage of, constitute roughly \$13 million in the District's foregone revenue in FY16 due to transportation-related tax expenditure provisions. There are three categorical transportation-related tax expenditure provisions, which support the following activities:

Metro (1);  
commercial motor vehicle and trailer owners (1); and  
valet parking services (1)

Similar to the environment and public safety areas, tax expenditures are not widely used as a policy tool in the area of transportation. There are three tax expenditures we identified; one is the exemption of properties owned by WMATA from the real property tax, another is the personal property tax exemption for motor vehicles and trailers in the District, and a third is the exemption from the sales tax of valet parking services.<sup>32</sup> The WMATA exemption, representing just under \$10 million a year for FY16, has been in the D.C. tax code since 1966 and results from the public purpose of WMATA and is aimed at helping it fulfill its mission of improving transportation throughout the region.

The motor vehicle and trailer personal property tax exemption has been law since 1954 and allows businesses to exclude vehicles and trailers from the personal property tax. The sales of valet parking services have never been subject to the sales tax in D.C., perhaps because it would be administratively difficult to do so, though the rationale is not clear. In 2002, the Council codified the tax exemption into law.

Table 5 below presents the three transportation-related tax provisions, the tax they relate to, the type of tax expenditure, the date enacted, the provision in the D.C. Code, the administering agency, and their estimated revenue foregone for FY16.

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<sup>32</sup> There is a D.C. sales exemption for transportation and communication services, which is categorized as economic development and will be presented in that report.

**Table 5: Categorical Transportation Tax Expenditures**

<b>Name of Tax Expenditure</b>	<b>Tax</b>	<b>Type of Provision</b>	<b>Enacted</b>	<b>D.C. Code</b>	<b>Agency</b>	<b>FY16 Revenue Loss Estimate (\$000)</b>
Washington Metropolitan Area Transit Authority properties	Real Property	Exemption	1966	§ 9-1107.01	OTR	\$9,781
Motor vehicles and trailers	Personal Property	Exemption	1954	§ 47-1508(a)(3)	OTR	\$2,831
Valet parking services	Sales	Exemption	2002	§ 47-2001 (n)(1)(L)(iv-I)	OTR	\$256
<b>TOTAL</b>						<b>\$12,868</b>

Source: ORA Compilation from 2016 Tax Expenditure Report.

Summing tax expenditures does not take into account possible interactions among individual tax expenditures, so it does not produce an exact estimate of the revenue that would be gained were any specific provision removed.

**Washington Metropolitan Area Transit Authority properties**

*Real Property Tax Exemption*

District of Columbia Code: D.C. Official Code § 9-1107.01  
 Sunset Date: None  
 Year Enacted: 1966

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	\$6,626	\$9,723	\$9,752	\$9,408	\$9,732	\$9,781	\$9,830	\$9,879

**DESCRIPTION:** The Washington Metropolitan Area Transit Authority Compact establishes the rules that govern the operation and administration of the regional mass transit system, commonly known as “Metro.” The District of Columbia, the State of Maryland, and the Commonwealth of Virginia are signatories to the Compact. Article XVI (“General Provisions”), Section 78 of the Compact, exempts the Washington Metropolitan Area Transit Authority (WMATA) and its Board from all taxes or assessments on any property that WMATA owns or controls.

**PURPOSE:** As stated in the Compact, WMATA’s mission “is in all respects for the benefit of the people of the signatory states and is for a public purpose.”<sup>33</sup> WMATA’s exemption from all taxes or assessments on its property helps WMATA fulfill its mission of improving transportation throughout the region, and extends to this regional organization the tax exemption that is provided to federal and local government property.

**IMPACT:** Residents of the Washington metropolitan area benefit from this tax exemption, as do the businesses and visitors who also rely on the Metro system, because the exemption allows WMATA to devote more of its resources to serving the public. Nevertheless, the tax exemption may reduce the costs of keeping land undeveloped.

During tax year 2015, there were 393 tax-exempt WMATA properties in the District of Columbia. These properties account for 0.6 percent of the total assessed value of tax-exempt property in the District of Columbia.<sup>34</sup>

WMATA has engaged in joint developments on its property, which augment the local tax base. For example, Metro sold land adjacent to the Georgia Avenue-Petworth Metrorail station that was developed as housing and retail space.

<sup>33</sup> See Article XVI, Section 70 of the Washington Metropolitan Area Transit Authority Compact.

<sup>34</sup> In tax year 2015, tax-exempt property of WMATA properties was valued at \$546 million. The total value of tax-exempt property in the District of Columbia was valued at \$93 billion.

**Washington Metropolitan Area Transit Authority properties**

**The Need:**

WMATA's exemption from all taxes or assessments on its property helps WMATA fulfill its mission of improving transportation throughout the region, and extends to this regional organization the tax exemption that is provided to federal and local government property.

**Resources/Inputs:**

In tax year 2015, tax-exempt property of WMATA properties was valued at \$546 million. In 2015, this represents an estimated revenue foregone of \$9,732,000.

**Outputs:**

During tax year 2015, there were 393 tax-exempt WMATA properties in the District of Columbia. These properties account for 0.6 percent of the total assessed value of tax-exempt property in the District of Columbia.

**Expected Benefits**

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

**Short-term:**

Residents of the Washington metropolitan area benefit from this tax exemption, as do the businesses and visitors who also rely on the Metro system.

**Medium-term:**

Residents of the Washington metropolitan area benefit from this tax exemption, as do the businesses and visitors who also rely on the Metro system.

**Long-term:**

Residents of the Washington metropolitan area benefit from this tax exemption, as do the businesses and visitors who also rely on the Metro system.

**Assumptions:**

Part IV: Review of Transportation Tax Expenditures

**Motor vehicles and trailers**

*Personal Property Tax Exemption*

District of Columbia Code: D.C. Official Code § 47-1508(a)(3)  
Sunset Date: None  
Year Enacted: 1954

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	\$1,972	\$2,244	\$2,266	\$2,437	\$2,461	\$2,831	\$2,859	\$2,888

DESCRIPTION: Any motor vehicle or trailer registered in the District of Columbia is exempt from personal property taxation, except that special equipment mounted on a motor vehicle or trailer and not used for the transportation of persons or property is taxed as tangible personal property. The District’s personal property tax applies only to business property, so the motor vehicles owned by District residents for their personal use would not be taxed even if this exemption were not in place.

PURPOSE: The reason for the exemption is not known, but many states do not include motor vehicles in their personal property tax.<sup>35</sup> Motor vehicles are exempt from the personal property tax in Maryland, but personal and commercial motor vehicles in Virginia are subject to the personal property tax.<sup>36</sup>

IMPACT: Owners of commercial motor vehicles and trailers benefit from this exemption. As of March 2016, there were 19,207 commercial vehicles registered in the District of Columbia, according to the D.C. Department of Motor Vehicles. The exemption violates the principle of economic neutrality because firms’ personal property tax liability could vary depending on the type of property owned, even if they have the same level of income or assets. However, it treats vehicles and trailers the same for personal property tax purposes whether they are owned by an individual or a business.

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<sup>35</sup> John Bowman, “Personal Property Taxation” in District of Columbia Tax Revision Commission, *Taxing Simply, Taxing Fairly: Full Report* (1998), Chapter H, p. 204.

<sup>36</sup> In Virginia, each city or county sets its own personal property tax rate and the state subsidizes some personal property tax relief for non-commercial motor vehicles.



**Motor vehicles and trailers**

**The Need:**  
Without this exemption, owners of commercial vehicles and trailers would be subject to the personal property tax. It is unclear why the exemption was passed.

**Resources/Inputs:**  
In FY15, the District's revenue foregone due to this tax expenditure was \$2,461,000.

**Outputs:**  
During fiscal year 2015, there were 19,207 commercial vehicles registered in the District of Columbia, according to the D.C. Department of Motor Vehicles.

**Expected Benefits**  
(changes in short, medium, or long term measures)

**Short-term:**  
Owners of commercial motor vehicles and trailers benefit from this exemption.

**Medium-term:**  
Owners of commercial motor vehicles and trailers benefit from this exemption.

**Long-term:**  
Owners of commercial motor vehicles and trailers benefit from this exemption.

**Assumptions:**

*Part IV: Review of Transportation Tax Expenditures*

**Valet parking services**

*Sales Tax Exemption*

District of Columbia Code: D.C. Official Code § 47-2001 (n)(1)(L)(iv-I)  
Sunset Date: None  
Year Enacted: 2002

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	\$186	\$390	\$383	\$143	\$148	\$256	\$268	\$281

DESCRIPTION: Gross receipts from sales of valet parking services are exempt from the sales tax.

PURPOSE: The District’s sales tax generally includes “the sale of or charge for the service of parking, storing, or keeping motor vehicles or trailers.”<sup>37</sup> Nevertheless, the District had never levied the tax on valet parking services, and policymakers decided to codify the sales tax exemption for valet parking services in 2002.<sup>38</sup>

IMPACT: Valet parking providers and their customers benefit from this exemption. The exemption creates a horizontal inequity, because other forms of parking are not exempt from taxation.

During fiscal year 2015, the District Department of Transportation reported that 61 valet parking permits were in effect. The estimated revenue loss from the exemption for fiscal years 2016 through 2018 is based on assumptions about the number of days each valet parking establishment is open and the money collected per day.

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<sup>37</sup> See D.C. Official Code § 47-2001(n)(1)(L).

<sup>38</sup> Office of the Chief Financial Officer, “Fiscal Impact Statement: ‘Fiscal Year 2003 Budget Support Act of 2002,’” June 4, 2002, p. 7.

**Valet parking services**

**The Need:**  
The need for this tax expenditure is unclear.

**Resources/Inputs:**  
In FY16, the revenue foregone to the District was approximately \$256,000 due to the exemption of valet parking services from the sales tax.

**Outputs:**  
During fiscal year 2015, the District Department of Transportation reported that 61 valet parking permits were in effect.

**Expected Benefits**  
(changes in short, medium, or long term measures)

**Short-term:**  
Residents of the Washington metropolitan area who use valet parking benefit from this provision.

**Medium-term:**  
Residents of the Washington metropolitan area who use valet parking benefit from this provision.

**Long-term:**  
Residents of the Washington metropolitan area who use valet parking benefit from this provision.

**Assumptions:**

## **Summary of Transportation-Related Tax Expenditures and Recommendations**

Tax expenditures are not a widely used policy tool in the area of transportation. The revenue loss due to categorical transportation-related tax expenditures in FY16 was just under \$13 million, about three-fourths of which stemmed from the property tax exemption for Metro property owned by WMATA.

This largest tax expenditure for WMATA property does directly support the larger transportation goals of the District in assisting the WMATA in the provision of Metro services. The other two tax expenditures do not have clear policy goals and in fact may create inequities between different types of parking (valet vs. garages) as well as between businesses that own different types of property (since commercial vehicles are exempt from the personal property tax and other types of business personal property may not be). However, given that residents' personal vehicles are exempt from the personal property tax, this tax expenditure treats vehicles the same whether they are owned by a business or an individual.

**Part V: Review of Tax Administration and Equity Tax Expenditures**

*Part V: Review of Tax Administration and Equity Tax Expenditures*

The total amount of tax administration and equity tax expenditures is roughly \$84 million in FY16; this is entirely due to two tax expenditures, the bulk of which is a sales tax exemption for public utility companies in order to avoid double taxation. Most of the tax expenditures in this section exist in order to assist with the administration of tax laws in particular circumstances, as well as to prevent double taxation on certain firms for purposes of equity. Further, one of these TEs exists to provide parity between similar types of firms (wireless telecommunications providers to regular telecommunications providers). The only two tax expenditures in this section with an estimate of foregone revenue exist for the purposes of preventing double taxation of public utilities and telecommunications providers.

Because these tax expenditures are different in nature than the majority of those outlined previously, which often have a policy focus and are meant to incent or subsidize particular behaviors, a logic model will not be outlined for the provisions within this section. They will be listed below and described as they are in the District’s 2016 Tax Expenditure Report.

**Table 6: Categorical Tax Administration and Equity Tax Expenditures**

<b>Name of Tax Expenditure</b>	<b>Tax</b>	<b>Type of Provision</b>	<b>Date Enacted</b>	<b>D.C. Code</b>	<b>Agency</b>	<b>FY16 Estimate (\$000)</b>
Public utility companies	Sales	Exemption	1949	§47-2005(5)	OTR	\$83,945
Public utility and toll telecommunications providers	Personal Property	Exemption	2001	§ 47-1508(a)(3A)	OTR	\$10
Tax-exempt entities subject to a long-term lease	Deed Rec. and Transfer	Exemption	2003	§ 42-1102(27) and § 47-902(21)	OTR	no estimate
Miscellaneous	Sales	Exemption	1949	§ 47-2005	OTR	no estimate
State and local governments	Sales	Exemption	1949	§ 47-2005(2)	OTR	minimal
Wireless telecommunication companies	Personal Property	Exemption	1998	§ 47-1508(a)(7)	OTR	minimal
Works of art lent to the National Gallery by non-residents	Personal Property	Exemption	1950	§47-1508(a)(2)	OTR	\$0
<b>TOTAL</b>						<b>\$83,955</b>

Source: ORA Compilation from 2016 Tax Expenditure Report.

Note: “Minimal” means that the foregone revenue is estimated as less than \$50,000 per year, although precise data are lacking.

**Public utility companies**

*Sales Tax Exemption*

District of Columbia Code: D.C. Official Code § 47-2005(5)  
Sunset Date: None  
Year Enacted: 1949

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	\$93,145	\$89,847	\$89,847	\$81,699	\$84,477	\$83,945	\$87,470	\$90,969

DESCRIPTION: Gross receipts from sales to a utility or a public-service company are exempt from the sales tax, provided that (1) the sales are for use or consumption in furnishing a service or commodity, and (2) the charges from furnishing the service or commodity are subject to a gross receipts tax or mileage tax in the District of Columbia. Both Maryland and Virginia provide similar exemptions.

PURPOSE: The purpose of the exemption is to protect utilities and public-service companies from double taxation. Because utilities and public-service companies are subject to a gross receipts tax, the value of the purchases made to provide utility service are already included in the base of the gross receipts tax.

IMPACT: Utility and public-service companies benefit from this exemption, as do their customers who would presumably bear some of the burden of the tax through higher rates.

*Part V: Review of Tax Administration and Equity Tax Expenditures*

**Public utility and toll telecommunications providers**

*Personal Property Tax Exemption*

District of Columbia Code: D.C. Official Code § 47-1508(a)(3A)  
Sunset Date: None  
Year Enacted: 2001

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	\$9	\$9	\$9	\$6	\$6	\$10	\$10	\$10

DESCRIPTION: The personal property of any company that is subject to a public utility tax or the toll telecommunications tax is exempt from the personal property tax.

PURPOSE: The purpose of the exemption is to prevent double taxation.

IMPACT: Companies that are subject to the public utility tax or the toll telecommunications tax benefit from this exemption.



**Tax-exempt entities subject to a long-term lease**

*Deed Recordation and Transfer Tax Exemption*

District of Columbia Code: D.C. Official Code § 42-1102(27) for the deed recordation tax  
 D.C. Official Code § 47-902(21) for the transfer tax  
 Sunset Date: None  
 Year Enacted: 2003

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	No estimate	No estimate	No estimate	No estimate	No estimate	No estimate	No estimate	No estimate

DESCRIPTION: A property is exempt from the deed recordation and transfer taxes if it is subject to a lease or ground rent for a term of at least 30 years, and if the lessor would have been exempt from real property taxation under D.C. Official Code § 47-1002 if it had owned the property outright.

PURPOSE: This exemption was created to provide equitable treatment under the deed recordation and transfer taxes for properties that are under the control of organizations that are exempt from the real property tax. This provision extends the exemption these entities receive when they acquire a property in fee simple to the conveyance of property that is subject to a lease or ground rent of at least 30 years.

IMPACT: Organizations that are exempt from the real property tax and assume control of a property through a lease of 30 years or more benefit from this provision. It was impossible to estimate the revenue loss from this exemption because deed recordation and transfer tax exemptions are not categorized in a way that identifies tax-exempt entities subject to a long-term lease.

**Miscellaneous**

*Sales Tax Exemptions*

District of Columbia Code: D.C. Official Code § 47-2005  
 Sunset Date: None  
 Year Enacted: 1949 and subsequent years

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	No estimate	No estimate	No estimate	No estimate	No estimate	No estimate	No estimate	No estimate

DESCRIPTION: D.C. law includes a number of sales-tax exemptions that are relatively small in scope. These miscellaneous exemptions cover gross receipts from (1) sales of materials and services to the printing clerks of the U.S. House of Representatives, and sales of materials and services by the printing clerks, (2) casual and isolated sales by a vendor who is not regularly engaged in the business of retail sales, (3) sales of food, beverages, and other goods made for use in the U.S. House of Representatives cloakrooms, and sales of food, beverages, and other goods made by anyone involved in operating the cloakrooms, (4) sales of food or beverages on a train, airline, or other form of transportation operating in interstate commerce, (5) food or drink that is delivered and sold without profit by a non-profit volunteer organization to persons who are confined to their homes, (6) sales of food or drink made by a senior citizen residence to the residents, guests, and employees of the senior residence, (7) sales of vessels that are subject to Article 29 of the Police Regulations, (8) sales of residential cable television services and commodities,<sup>39</sup> (9) sales of printing services and tangible personal property to a publisher that prints and distributes its own newspaper in the District of Columbia free of charge, (10) sales of two-way land mobile radios used for taxicab dispatch and communication, (11) sales of material or equipment used in the construction, repair, or alteration of real property, provided that the materials are temporarily stored in the District of Columbia for not longer than 90 days in order to transport the property outside the District for use solely outside the District, and (12) sales by the U.S. government or the District government.

Sales tax exemptions for infrequent or isolated transactions are common in other states.

PURPOSE: The miscellaneous exemptions serve a variety of purposes, including (1) avoiding an administrative burden on those who sell goods or services infrequently or incidentally, (2) preventing double-taxation for certain goods or services subject to other taxes when they are sold, (3) exempting goods or carriers that are passing through the District through interstate commerce or transportation, and (4) promoting the purchase of certain items.

IMPACT: Various groups of vendors and consumers benefit from these exemptions, as described above. There may also be a benefit to the Office of Tax and Revenue, because the cost of collecting sales tax on incidental or unusual transactions might exceed the amount of revenue generated. There is no estimate of the foregone revenue for these provisions, because most of the individual items are very small and difficult to estimate.

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<sup>39</sup> These sales are subject to a gross receipts tax.

**State and local governments**

*Sales Tax Exemption*

District of Columbia Code: D.C. Official Code § 47-2005(2)  
Sunset Date: None  
Year Enacted: 1949

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	minimal	minimal	minimal	minimal	minimal	minimal	minimal	minimal

Note: “Minimal” means that the foregone revenue is estimated as less than \$50,000 per year, although precise data are lacking.

**DESCRIPTION:** Gross receipts from sales to a state or any of its political subdivisions (counties, cities, townships) are exempt from the sales tax, provided that the state grants a similar exemption to the District of Columbia. The term “state” refers to the states, territories, and possessions of the United States.

**PURPOSE:** The purpose of the exemption is to recognize that purchases made by state and local governments are not meant for final consumption, but rather as inputs to the provision of goods and services by those governments.

**IMPACT:** State and local governments benefit from the exemption, as do the taxpayers in those jurisdictions. The District of Columbia also benefits indirectly, because the District will not receive an exemption from the sales tax in other jurisdictions if it does not provide a reciprocal exemption.

**Wireless telecommunication companies**

*Personal Property Tax Exemption*

District of Columbia Code: D.C. Official Code § 47-1508(a)(7)  
Sunset Date: None  
Year Enacted: 1998

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	minimal	minimal	minimal	minimal	minimal	minimal	minimal	minimal

Note: “Minimal” means that the foregone revenue is estimated as less than \$50,000 per year, although precise data are lacking.

**DESCRIPTION:** The personal property of a wireless telecommunication company is exempt from personal property taxation, except for office equipment or office furniture. This exemption includes resellers that purchase telecommunications services from another telecommunications service provider, and then resell or integrate the purchased services into a mobile telecommunication service. The exemption is valid whether or not the wireless company uses the property to provide a service which is subject to the toll telecommunications tax.

**PURPOSE:** The purpose of the exemption is to provide wireless telecommunication companies with a personal property tax exemption equivalent to the exemption provided to other telecommunication companies.

**IMPACT:** Wireless telecommunication companies benefit from the exemption. Nevertheless, the number of firms that claim the exemption and the associated reduction in tax are unknown because the wireless telecommunication companies do not have to file a form with the Office of Tax and Revenue to be eligible.

The estimated revenue loss is “minimal” (less than \$50,000 per year) because U.S. Census Bureau data show that wireless telecommunication companies are typically small (approximately 30 employees).<sup>40</sup> D.C. law exempts the first \$225,000 of taxable personal property from the tax, and most wireless telecommunication companies might therefore be exempt, due to their size, even without this blanket exemption. The majority of D.C. businesses have no personal property tax liability as a result of the \$225,000 exemption.

The exemption violates the principle of horizontal equity because other firms with similar amounts or stocks of personal property do not receive similar treatment.

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<sup>40</sup> Specifically, the 2007 Economic Census reported that there were 31 wireless telecommunication companies in the District of Columbia with 925 employees, an average of 29.8 employees per firm.

**Works of art lent to the National Gallery of Art by non-residents**

*Personal Property Tax Exemption*

District of Columbia Code: D.C. Official Code § 47-1508(a)(2)  
 Sunset Date: None  
 Year Enacted: 1950

<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Estimated Revenue Foregone (\$000)</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

DESCRIPTION: Works of art owned by an individual who is not a resident or a citizen of the United States are exempt from the personal property tax, provided that the works of art are lent to the National Gallery of Art solely for exhibition without charge to the general public.

PURPOSE: The U.S. Congress established the exemption in order to facilitate a National Gallery of Art exhibition of the paintings of oil magnate Calouste Gulbenkian, who was considered to have one of the best private art collections in the world. Mr. Gulbenkian was unwilling to lend his paintings to the National Gallery without assurances that they would be exempt from federal and District of Columbia taxation, particularly if he were to pass away while the paintings were on loan.<sup>41</sup> Therefore, on September 1, 1950, Congress enacted P.L. 81-749, which established that works of art owned by a non-resident of the United States who is not a citizen of the U.S., and lent for exhibition by the National Gallery of Art, are exempt from the federal estate tax and from the D.C. inheritance and personal property taxes.<sup>42</sup>

The exhibit, “European Paintings from the Gulbenkian Collection,” was open to the public from October 8, 1950, to May 31, 1951. Included were works by Ghirlandaio, Rubens, Van Dyck, Rembrandt, Fragonard, Gainsborough, Corot, Manet, Monet, Degas, and Renoir.

IMPACT: There is no evidence that the exemption has been used in any cases besides the Gulbenkian exhibit.

<sup>41</sup> U.S. House of Representatives, Committee on Ways and Means, 81<sup>st</sup> Congress, Report to Accompany House J. Res. 497 (Report No. 2724), July 24, 1950, pp. 1-2.

<sup>42</sup> The relevant provision of the inheritance tax was repealed when the inheritance tax law was rewritten in 1987.

**Appendix: Legislative Requirement**

## *Appendix*

From D.C. Law 20-155

Subtitle N. Tax Transparency and Effectiveness

Sec. 7141. Short title. This subtitle may be cited as the "Tax Transparency and Effectiveness Emergency Act of 2014."

Sec. 7142. Definitions.

For the purposes of this subtitle, the term:

- (1) "Categorical preference" means a tax preference that sets eligibility criteria and is potentially available to all entities that meet the criteria, subject to any funding limitations.
- (2) "CFO" means the Chief Financial Officer of the District of Columbia.
- (3) "Economic development purpose" means a goal to increase or retain business activity, including attracting new businesses or retaining existing ones, encouraging business expansion or investment, increasing or maintaining hiring, or increasing sales.
- (4) "Individual preference" means a tax preference, such as a tax abatement, applied to one entity, project, or associated projects.
- (5) "On-cycle tax preference" means a tax preference being reviewed in a current year.
- (6) "Tax preference" shall have the same meaning as the phrase "tax expenditures" as defined in section 47-318(6) of the District of Columbia Official Code.

Sec. 7143. Tax preference review.

(a) The CFO shall review all locally adopted tax expenditures on a 5-year cycle and publish annually a report complying with the requirements of this section.

(b) By October 1, 2015, and by October 1 of every year thereafter, the CFO shall submit for publication in the District of Columbia Register a report for on-cycle tax preferences that complies with the requirements of this section.

(d) An on-cycle individual preference shall be analyzed and reported in the following manner:

- (1) An individual preference shall be analyzed and reported in groupings of similarly purposed preferences, with the report focusing on collective effects or trends that emerge.
- (2) The report shall include the stated purpose of the of tax preferences within the grouping, if clarified in the authorizing legislation.
- (3) The report shall include the amount of lost revenue due to the tax preferences within the grouping.
- (4) The report shall include an assessment of the general effects on the District resulting from the preferences.
- (5) The report on groupings of individual preferences shall include recommendations on how to improve similar preferences in the future.
- (6) For groupings of individual tax preferences with an economic development purpose, the analysis shall consider the economic impact of the preferences, and where sufficient data are available, take into account factors including:
  - A) Whether the economic impact of the tax preferences would have been expected without the preferences;
  - (B) The extent to which the economic impact of the tax preferences was offset by economic losses elsewhere;
  - (C) The average economic impact for a level of direct expenditures equal to the cost of the tax preferences;
  - (D) The indirect economic impact of the tax preferences;
  - (E) The number of jobs created by the preference;
  - (F) The wages of the jobs created;
  - (G) The percentage of jobs filled by District residents; and
  - (H) Whether any terms of the tax preferences have been or are being satisfied.

## *Appendix*

(e) Except as provided in subsection (f) of this section, on-cycle categorical preferences shall receive a full review that, where sufficient data are available, includes:

- (1) The purpose of the tax preference, if clarified in the authorizing legislation;
- (2) The tax preference's cost in terms of lost revenue;
- (3) An assessment of whether the tax preference is meeting its goals;
- (4) An assessment of whether the tax preference is achieving other goals;
- (5) Recommendations for improving the effectiveness of the tax preference;
- (6) Recommendations for whether the tax preference should be modified, discontinued, or remain in its existent state; and
- (7) For tax preferences with an economic development purpose, an analysis that measures the economic impact of the preference, including:
  - (A) Whether the economic impact of the tax preference would have been expected without the preference;
  - (B) The extent to which the economic impact of the tax preference was offset by economic losses elsewhere;
  - (C) The average economic impact for a level of direct expenditures equal to the cost of the tax preference; and
  - (D) The indirect economic impact effect of the tax preference.

(f) For on-cycle categorical tax preferences that the CFO determines do not merit a full review, the CFO shall instead perform a summary review. In determining which tax preferences are appropriate for a summary review, the CFO shall consider factors including, at a minimum:

- (1) The revenue lost due to the tax preference and the number of potential or actual claimants;
- (2) Whether the revenue lost due to the preference has increased or decreased since the preference was last reviewed;
- (3) Whether the preference has been included in legislative or administrative proposals to modify or repeal; and
- (4) Whether the preference is required by the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 774; D.C. Official Code §1-201.01 et seq.).

(g) A report on a categorical preference designated for summary review shall include:

- (1) A narrative summary of the preference, including its purpose;
- (2) The source and year of statutory authorization;
- (3) The fiscal impact of the preference; and
- (4) A description of the beneficiaries of the tax preference.

(h) All District agencies, offices, and instrumentalities shall cooperate with the CFO and shall provide any records, information, data, and data analysis needed to complete the reviews and reports required by this section.<sup>43</sup>

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<sup>43</sup> <http://lims.dccouncil.us/Download/32103/B20-0849-Enrollment.pdf>