D.C. Tax Revision Commission

MEETING MINUTES

Subject: D.C. Tax Revision Commission Meeting

Date: Nov. 18, 2013

Time: 3:00 p.m. to 6:00 p.m.

Location: Room W250 1101 4th Street, S.W. Washington, D.C. 20024

Members Present:

Anthony Williams	Teresa Hinze
Kim Rueben	David Brunori
Catherine Collins	Stefan Tucker
Pauline Schneider	Nicola Whiteman
Ed Lazere	Mark Ein
Fitzroy Lee	

Staff:

Gerry Widdicombe	Steven Rosenthal
Ashley Lee	Richard C. Auxier
Elisha Gaston	

I. Call to Order (Commission Chair)

Mr. Anthony Williams, the chair of the D.C. Tax Revision Commission (the "Commission"), called the meeting to order at 3:10 p.m., and began by thanking the Office of the Chief Financial Officer (OCFO), the Office of Revenue Analysis (ORA), and the Office of Tax and Revenue (OTR) for their exceptional contributions to the Commission's work. Mr. Williams said the Commission's next meeting would be held on Dec. 3, 2013, from 3 p.m. to 6 p.m., in the same room (Room W250 1101 4th Street, SW).

II. Discussion of Commission Schedule and Deliberation Process

Mr. Williams announced that the Commission would hear from Mr. Stephen Swaim, a financial economist with ORA, as the first order of business. Mr. Swaim was asked to update the Commission on D.C.'s fiscal outlook (he had made a similar presentation in late 2012). The rest of the meeting would be devoted to discussing and debating the Commission's list of policy options.

III. Presentation: Mr. Stephen Swaim—Update on D.C.'s Economy and Revenue Outlook

Mr. Swaim directed the Commission's attention to the first slide of his presentation. He explained that job growth in D.C. has slowed, but that private sector gains have managed to keep ahead of the recent decline in federal employment. He cautioned that as a result of the sequester, D.C. is no longer outpacing the rest of the country.

Mr. Swaim noted that unemployment and poverty rates remain high, but said that D.C.'s population continues to increase. He said that D.C. resident earnings are also growing as a percentage of income generated in D.C. There has also been an occupancy increase in the real estate market, with a corresponding increase in the building of new apartments and office spaces.

Mr. Mark Ein commented that the general impression is that D.C.'s commercial real estate market is pretty weak right now.

Mr. Swaim said that the real estate market is relatively stable overall. Ms. Nicola Whiteman noted that Mr. Swaim's observations are based on a current snapshot and not ongoing trends.

Mr. Swaim confirmed Ms. Whiteman's point, saying that the future is subject to lots of uncertainty. He said that although D.C. is collecting more tax revenue that growth is slowing. D.C.'s revenue collections surpassed the 2008 peak in 2011, and 2013 revenues are anticipated to include $250 million additional dollars. The capital gains component of business income and transfer taxes account for much of these excess revenue collections, with some influence attributable to the recent sales tax increase and other changes to the tax code.

Moving on to slide 4, Mr. Swaim explained that D.C.'s September revenue outlook predicts slower growth in income, employment, and revenue for fiscal years 2013 through 2016. He explained that real property tax revenue changes were not much of a factor between 2010 and 2013, but is expected to hit the revenue stream now that D.C. is on the heels of its next property value assessment cycle.

Ms. Pauline Schneider asked how far the department's revenue projections were five years ago, and whether she was correct in thinking that the projections tend to be conservative—actual revenue is higher than projections.

Mr. Swaim responded that although projections tend to be conservative, they are not unrealistically conservative, and that D.C. does not have a developer's perspective on what will happen in the future.

Ms. Schneider asked whether ORA's projections have ever over-estimated the revenue collections.

Mr. Ed Lazere answered yes, and noted that this was especially true during an economic downturn, when it is hard to predict how bad the recession is likely to be.

Mr. Swaim added that during an economic downturn there are many variables that could affect the end result, including the possibility that certain jobs, like highway jobs, will return to D.C.

Mr. Swaim discussed Slide 5, which summarized the primary issues affecting current uncertainty. First, the government shutdown and the sequester have restrained federal government spending. It is not clear how severe the restraint will be, however, and when and how much this will affect D.C.'s private sector.

Second, private sector diversification: In the face of lagging government and legal services jobs, gains in high-wage employment will have to come from the private sector to some extent.

Third, population growth: Mr. Swaim explained that population growth and job growth are interconnected and interacting forces.

Fourth, real estate: Mr. Swaim pointed out that the limited supply of land and growing economy can sustain increasing property values, but that assessed values can be adversely affected if interest rates rise.

Fifth, federal grants make up about 30% of D.C. revenues, thus federal cutbacks could affect grants and put more pressure on local revenue.

Sixth, the U.S. economy and other outside influences could affect revenue. The pace of stock market gains are not likely to be sustainable, thus a reduction in collections resulting from high capital gains is likely. Additionally, D.C. is especially susceptible to shocks from national security events, and disruptions in global energy and financial markets.

Mr. Swaim explained that uncertainty in economy, and other factors could impact D.C.'s economy, and informs ORA's cautiousness in generating revenue estimates.

He explained that the graphs and table on slide 6 show that there has been growth in private sector jobs over the last two years, but that this growth is less than the U.S. average, and less that the metro area average.

Mr. Williams said that he thinks that there are three scheduled cutbacks in federal spending: The fed is not spending as much on wars, shifting away from the discretionary spending, and experiencing the effects of the sequester on top of all that.

Mr. Swaim said that this was correct, and added that the assumption at this point is that these predictions will materialize. D.C. is going to have to transition as a city and become less dependent on the federal government in the future. He pointed out that D.C. has more jobs now that before the recession, though.

Mr. Tucker asked whether the chart didn't reflect that D.C. was better off before and therefore growth hasn't been as great.

Mr. Swaim explained that municipalities like Detroit were starting from a hole while D.C. was starting from a good place, because the recession did not deliver as huge a blow to D.C. He noted that the model of law firms getting money from more and more people is suffering, that the healthcare reform effort is cause for uncertainty, and competitive online education is something to look out for as far as D.C.'s economy is concerned.

Mr. Ein pointed out that there was a 0.5% job growth rate over a two-year period in D.C. He acknowledged that what is going on in the rest of the world is not great, but noted that although D.C. is a good place for young people, this is not translating into job growth.

Mr. Williams said that you can't have more residents forever unless you have more jobs.

Ms. Rueben said that this is not necessarily a bad thing, because many people are living in D.C. but working in Virginia or Maryland.

Mr. Ein said that there is no reason why we shouldn't try to aim for residents to both live and work in D.C., and that these numbers are eye opening.

Mr. Swaim said that slide 7 shows the demographic story of the last 12 years, as told by the Census data, is that there has been rapid growth during the last four years.

Mr. Swaim said that he did not have this information. He explained that the lower graph shows D.C. population as a percentage of the U.S. population, and that D.C. is gaining in the age 25-44 range and losing residents older than age 64.

Slide 8 included illustrations showing the change in wages earned in D.C. over the last three years compared with people nationwide. Mr. Swaim explained that the take home is that wages earned by D.C. residents is falling behind as a percentage of wage growth in the U.S., even though the rest of the country had a bad recession. He added that relative to this story, resident earnings are growing relative to the size of the economy in D.C. As a percentage of U.S. totals, resident earnings in D.C. are quite high, and property income is significantly higher.

Slide 9 contained illustrations of housing and property values according to the index of the federal housing finance agency. D.C. is well above where it was in terms of property value when the bubble burst in 2008, but other jurisdictions have much lower property values. While personal income and housing prices grew at the same rate in prior years, currently housing prices are growing more rapidly than personal income growth. D.C.'s real estate market is relatively stable, with the most volatility in certain properties such as office buildings, apartments, hotels, etc.

Mr. Swaim explained that although real revenue growth is up, non-tax revenues have seen slower growth. As a percentage of personal income, non-tax revenue has risen slightly, and is expected to fall modestly in the next three years. Real property values have been growing rapidly over the last 10 or so years.

Mr. Ein asked which federal grants and payments are the largest.

Mr. Swaim said that Medicaid is by far the largest, and that there are significant funds for things like highways, education, community grants, housing, etc. He reiterated that Medicaid is the biggest.

Mr. Williams thanked Mr. Swaim for a great presentation.

IV. Commission Deliberations

Mr. Williams asked that Mr. Steve Rosenthal and Mr. Richard Auxier step forward to lead the Commission's deliberations. Mr. Williams explained that follow-up analyses of a few policy options were requested by the Commission, and that Mr. Rosenthal and Mr. Auxier would review those options at today's meeting. Mr. Williams added that no votes would be taken at this meeting, and that commissioners could revisit policy options at the next Commission meeting.

Mr. Rosenthal said that his goal for the day was to get a feel for the temperature of the Commission on some of the options under consideration, in order to develop a plausible list of potential consensus recommendations. Going through the list, Mr. Rosenthal noted that the first policy option, to expand the sales tax base had received support from members, but that a more comprehensive review of the taxable services was requested. He called on Mr. Jason Juffras, a fiscal analysis with ORA, who volunteered to go through the 182 potentially taxable services.

Mr. Juffras compared the services that are taxed in Maryland or Virginia but not D.C. He noted that most services are untaxed in both states, and that D.C. already taxes more services than its neighboring states. But there are 15 services taxed in one of these two states that are not taxed in D.C. If the District taxed these services, however, it would collect approximately $20 million to $30 million in new revenue. In 2011, when D.C. more recently expanded its sales tax base, it followed a similar justification by expanding its base to services taxed in Maryland but not D.C.

Ms. Schneider asked what state more closely resembles D.C. in taxing services.

Mr. Juffras said that D.C. is closer to Maryland than Virginia. He added that New York recently issued a tax revision commission report, and that their commission did not recommend embracing the option to expand the sales tax base immediately.

Mr. Rosenthal commented that this is considered a politically unpopular idea.

Ms. Reuben asked whether there are private airports (one of the services taxed in Virginia) in D.C., and noted that this could limit D.C.'s ability to broaden its tax base.

Mr. Lazere commented that if the goal of the sales tax measure is to increase revenue source, then a tax on services is good policy, especially when we carefully consider what people are spending on. For example, he noted that residents were unlikely to take dry cleaning outside D.C. to avoid paying a sales tax. He said that D.C. already taxes dry cleaning, but nobody goes to Maryland or Virginia as a result. Mr. Lazere added that there are many online services not taxed in D.C., Maryland or Virginia. He said that D.C. should send a signal that it is okay to broaden the sales tax base, even if Maryland and Virginia are not on the same page.

Mr. Rosenthal brought up the next policy option, explaining that it relates to the unincorporated business franchise tax (UBFT). He said that the investment management firm, Avenir, testified about creating an exception to the UBFT for passive investment funds in December. Because investment pools are currently subject to the UBFT, none operate in D.C. He explained the option now under consideration was to follow the New York City approach to exemption investment funds for such taxes.

Mr. Rosenthal explained that if an investment fund is organized in D.C., and does business in D.C., then all returns of the investment fund are subject to the D.C. UBFT. New York City also has a UBFT, but investment funds are provided a "safe harbor" so that the capital is not taxed. The management of that capital, however, is taxed. New York City's tax is therefore not a tax on the investment returns. Mr. Rosenthal explained that in sum, the option being considered is to exempt investment funds and investment returns, but not the advisory fees involved, so that D.C. would parallel New York City.

Mr. Tucker asked whether Mr. Rosenthal was saying that right now D.C. is collecting nothing, and something would be better than nothing.

Mr. Rosenthal said that is the assumption, but it needs to be checked.

Ms. Reuben asked whether or not we have any investment companies in D.C.

Mr. Rosenthal said that he knows of one such company in D.C.: Carlyle.

Mr. Lazere asked if Carlyle avoids the UBFT.

Mr. Rosenthal said he did not know, but that D.C. does not have a vibrant money management industry, because if companies tried to set up in D.C. they would have to pay the UBFT.

Mr. Ein said that investors cannot operate if paying this tax.

Mr. Lazere asked how this works in other states.

Mr. Ein explained that other states do not tax LLCs, and only impose tax where the investors live via the individual income tax. He added that D.C. has an exemption from the UBFT all other professional services, and that this is an industry that should have a good base in D.C. He asked how these companies are taxed in Virginia and Maryland and suggested that if D.C. changes its laws, it should do it in a way that encourages people to move to D.C.

Mr. Rosenthal said that every business has service and capital components. He noted agreement among various courts, that capital is a critical piece of the investment fund business, and taxing them is not simply a tax on their income. He asked why the services of every business should not be exempt from tax if those of investment funds deserved to be exempted.

Mr. Ein asked whether the UBFT is mostly collected on real estate.

Mr. Williams asked whether the Commission could get an analysis of what would happen if D.C. did not tax the management piece of investment services.

Mr. Ein commented people living in D.C. when they are starting investment firms are advised by their attorneys to leave the District.

Mr. Rosenthal said that at the federal level, the U.S. government does not exempt a foreigner who engages in financial services in the U.S., although they exempt the capital.

Mr. Ein said that if D.C. residents pay this tax, they get it deducted from their individual taxes.

Mr. Rosenthal pointed out that residents do not receive a complete refund.

Mr. Tucker added that the option being debated would bring more people into D.C and could be a significant boost to the local economy.

Mr. Williams announced the Commission would now hear from Ms. Reuben, who would report on the subcommittee deliberations on individual income taxes.

Ms. Reuben first thanked the staff at ORA for being extraordinarily helpful to the subcommittee, noting that they were working, even as of that morning, to help the subcommittee understand the numbers. Ms. Reuben explained that the subcommittee examined numerous ways that the Commission could recommend making the income tax more progressive.

She said the subcommittee decided D.C. should conform its income tax filing statuses to the federal government. Separate rates would apply to the categories of married and head of household as opposed to single or married filing separately.

Ms. Reuben added that the subcommittee considered Mr. Tucker recommended tax brackets but determined that this approach was cost prohibitive. She said that even with a top rate of 9.5% the package still costs hundreds of millions of dollars.

Ms. Reuben said that the subcommittee considered additional options that were much less generous in revenue cost. She said that one option lowered most rates, except for people in the top two income brackets, and the other option gave less tax relief to middle-income brackets. Neither option moved the top rate above its current level of 8.95%. She added that these options expanded the earned income tax credit (EITC) for childless workers. Ms. Reuben also added that the subcommittee wants to raise D.C.'s standard deduction and personal exemption to the federal levels but cautioned this cost a significant amount of money.

A few commissioners asked that future analysis use federal adjusted gross income (AGI) instead of D.C. taxable income and Mr. Fitzroy Lee said this was possible.

Ms. Hinze suggested that the Commission use the federal AGI because this reflects how people view their taxes.

Mr. Lazere commented that the best options for the income tax reform are those that would lower taxes for moderate-income families, since they are currently paying a disproportionate share of income in D.C. taxes.

Mr. Tucker added that people below a certain income level do not itemize and do not take advantage of deductions, and asked what percentage of people this were in this category.

Mr. Rosenthal said roughly 80% of residents earning less than $75,000 take the standard deduction. He moved on to speak about changes to itemized deductions that were scheduled to take effect in the coming fiscal year.

Mr. Lee said that one possible trade off would be to phase out the limits on itemized deductions while gradually raising rates, or phasing out exemptions on a quicker schedule.

Mr. Rosenthal said that it is worth hearing the sentiment of members on whether they believe the top rate should be raised or not.

Ms. Reuben said that one good idea would be to see if D.C. could move Schedule H from the income tax to the property tax. She added that if taxpayers are eligible based on the prior year's income, perhaps they could be taken off the property tax role to ease the burden on some of these people that we worry about getting into trouble.

Mr. Lazere noted the tax rate increase in the packages did not start until $350,000 and that this seemed inefficient considering such taxpayesr benefit from the rate cuts to lower brackets.

Mr. Williams then announced he would like to spend a few minutes discussion the Commission's recommendations for tax administration and how it planned to work with D.C.'s new CFO, Jeff

DeWitt. He then introduced Mr. Gerry Widdicombe, who provided a breakdown of tax administration considerations.

Mr. Widdicombe said the Commission would pass on all testimony and report from the prior meeting on tax administration to Mr. DeWitt. He said the staff would also compile recommendations from its discussions and present an options list to commissioners at a later date.

Ms. Nicole Whiteman added that perhaps if there is consensus on some options it might be helpful for the CFO to see them. She added that a long term commitment to training employees is important, and that this is necessary to improve efficiency and address other issues.

Mr. Tucker said that on the administration side of OTR, one of the things that happens is that they cannot hire non-CPAs to be revenue analysts, despite the fact that there are many qualified lawyers with no jobs, who would happily fill current voids. He asked whether this was a part of the conversation. Mr. Widdicombe answered, “yes.”

Mr. Widdicombe then moved the discussion to funding options for the Commission’s package of recommendations. He asked whether the Commission would want to recommend a revenue neutral package or one that cost revenue.

Mr. Williams added that Mr. Widdicombe and himself have been briefing D.C. councilmembers on how the Commission is looking at things and where the Commission is in developing the framework for funding its recommendations. He added that $18 million had already been provided by the Council to fund the Commission’s reforms.

Mr. Ein pointed out that these options assume that the Commission will operate with static revenue analyses. He said if D.C. lowers rates then there will be more economic activity over time, which would increase revenues and make up for some of the immediate losses. He added that one of the best things we can do for the city is create a vibrant economy, and that he does not want to hamper D.C.’s long term potential.

Mr. Lee pointed out that the problem with the dynamic story is that you have to decide whose model you believe about how people react to changes in the tax code. He added that the predictions can be dramatically different. Some forecasters expect no behavioral reaction while others expect companies and people to make big changes.

Mr. Ein said that he’d assumed that people would react to the changes being considered, and that the Commission should, at the very least, incorporate some semblance of a sanity test that examines the option at a macro level to determine if it is likely to hurt the economy.

Mr. Lee suggested that maybe in case the economy does better than expected, then the Commission might consider incorporating a conditional increase in the target rates that would occur gradually. He added that this would be a cautious approach.

Mr. Lazere commented that the Commission should go through the entire list of options to determine what the cost of each would be, and adjust the options based on balancing the total costs in order to make the recommendations more politically viable.

Mr. Rosenthal explained that the chart provided to members was color coded, as a method of indicating the perceived temperature of the Commission on each of the policy options. He said that the options highlighted in red received little support from commissioners in prior deliberations, the options highlighted in yellow had some support, and those highlighted in green were strongly supported. He added that this discussion was intended to determine whether the staff was correct in its perception of staff consensus.

Mr. Ein said that he was surprised to see that option No. 6 (increasing the sales tax rate on parking, hotels and restaurants) was highlighted in red, since he believed it to be more of a yellow.

Mr. Williams disagreed and said it was a non-starter.

Mr. Tucker added that option No. 6 would hurt D.C., which is good reason to leave it alone.

Mr. Ein argued it should be yellow. He added increasing these sales tax rates were better options than some of the other revenue raisers on the list.

Ms. Reuben pointed out that a significant drop in hotel stays occurred when New York significantly increased their rates.

Ms. Catharine Collins said that there are three or four different hotel taxes, and that if the Commission wants to recommend middle income tax relief, this option should be seriously considered.

Ms. Reuben asked, “If yellow means have not decided, then when do we decide?”

Mr. Rosenthal said that this exercise is designed to see how close Mr. Auxier and himself were with their assessments of consensus.

Mr. Tucker commented that the option to increase the general sales tax rate from 5.75% to 6% is red but should be green, because there is no reason to impose a rate lower than both Virginia and Maryland. He added that at the time the D.C. Council went back and decreased the rate to 5.75%, Virginia’s rate had not yet been raised to 6%.

Ms. Whiteman said that the parking tax was just increased, and that she is wary of making suggestions in areas where the Council has taken recent actions to adjust the rate. She added that the Council has already indicated where they want to be on those particular areas.

Ms. Schneider asked whether the Commission should consider any option off limit that the Council acted on recently or not.

Ms. Hinze said that she believed the Commission's thoughts about option No. 4 might have changed after members heard the testimony about administrative concerns.

Ms. Reuben asked whether the Commission will be proposing a package that it hopes will be passed in the next year or two, or a package that is designed to make statements that we think are important.

Mr. Williams said that the hope was to get a package enacted soon.

Moving on, he asked the Commission to consider the coding of the options on D.C.'s individual income tax. He added that there will be tradeoffs to consider for some of the options, and that the Commission might want to examine some of these changes together.

Mr. Rosenthal informed the Commission that contrary to much higher early predictions, option No. 12 (expanding the EITC to childless workers) is actually expected to be far less costly that originally estimated. Mr. Rosenthal added that Ms. Reuben came up with a suggestion to make the EITC change less costly.

Ms. Reuben explained that her suggestion involved limiting the expansion of the age groups among other things.

Mr. Rosenthal reminded the Commission of its discussions about the interaction between the federal and D.C. limit on itemized deductions. He added that this would likely create a stir among D.C. residents, who were likely view the cumulative effect of federal and D.C. phase outs as a double hit. Mr. Rosenthal mentioned Mr. Lee's suggestion that the Commission consider choosing the level of itemized deductions that we want for each income bracket based on the level of tax that we want to come from people in each bracket.

Mr. Lazere asked whether the issue was not that there were different rates at D.C. and federal levels, and that D.C.'s limits applied *after* the fed. He added that this particular issue would not be difficult to address to do away with the interactive effects.

Mr. Williams suggested that the Commission consider various factors to inform its recommendations, including economic effect and legislative history.

Mr. Lazere said that he agrees with those who think that the Commission should not take politics into account for every option, but added that it should also not try to push options through that are simply not going to happen.

Mr. Williams noted his respect for the Commission's discussions about fairness and progressiveness, but noted that D.C. is already one of the most progressive tax systems in the U.S.

Mr. Lazere pointed out that though Mr. Williams made a good point, Middle income people in D.C. pay a combined tax rate that is the third highest in the country.

Mr. Auxier noted that D.C. does simultaneously have one of the most progressive tax systems when compared with other states and also has its middle-income residents paying a disproportionate share of income D.C taxes.

Mr. Ein commented that he does not think that a lot of residents understand how to think about progressivity in this combined tax rate manner, and that consequently, the Commission may have some explaining to do depending on its recommendations. He added that the reality is that people think that D.C.'s tax system is progressive, and doing too much to make the income tax more progressive might lead to a very ugly public reaction. He added that currently, a large number of wealthy people work in D.C., but live as close to D.C. as possible without living in it. He said that the Commission should avoid these negative consequences if it can do so.

Mr. Ein pointed out that it was his understanding that the Commission's operating principle was to lower rates and broaden the base in order to promote a robust economy and job growth. He added that D.C. has horrible unemployment, that many have a poor standard of living, and that the best thing the Commission can do to fix this is to help the economy.

Ms. Reuben commented that high rates are likely to send a certain message, but this depends on how the higher rates are implemented.

Mr. Ein said that he would lean towards ones like the hotel tax that do not fall on residents.

Mr. Lazere agreed, and added that signaling is very important. He noted that what the Commission heard on Friday was that some people decide where to live because of taxes, but not so much when rates are changed. For example, New Jersey raised its top rate by 2.6 points five years ago and people did not migrate in response to this change in the income tax rate.

Mr. Ein noted that there is a big concentration of people living right over the border in Virginia.

Mr. Rosenthal said that D.C.'s estate tax is still locked into the old federal credit, and that the Commission considered suggestions and comments from various estate tax practitioners. He said that option No. 25 (raising the estate tax threshold) attracted the most interest, and that New York's Tax Revision Commission has just come out this week with a suggestion of moving its threshold to $3 million.

Mr. Lazere said that he contacted some academics who studied this issue, and that statements from them would go up on the Commission's website.

Mr. Willimas said that he respects the professor, but sending the right signal is important. He explained that many residents have seen a rise in property values, and that many of them are now exposed to the estate tax.

Ms. Schneider added, "Because you want us to stay."

Mr. Tucker said that he knows from his own practice and his contacts in the area that people are moving because they don't want to pay the estate tax.

Mr. Reuben said that it is easy to misinterpret mobility patterns, and that the mobility pattern suggests that people are moving for other reasons, like the desire to live in a warmer climate.

Mr. Tucker added, with apologies, that he is not sure that Northern Virginia is much sunnier than D.C., and that people are nonetheless moving there all the time. He added that the cost of the estate tax is only $15.8 million and the Commission should use this to keep its residents.

Mr. Lazere said that the tax is only valuable as a signal, and does not really affect moving decisions.

Mr. Rosenthal asked the Commission to now consider business taxes. He said there appeared to be agreement that implementing a gross receipts tax is too costly. But there is also agreement that business franchise taxes should be cut.

Ms. Reuben said that the Commission should consider what signals it was sending to whom.

Mr. Rosenthal pointed out that it is possible and a good idea to send different signals to each group. He said that there was prior interest in business tax cuts by cutting either the commercial property tax or business franchise tax rates. He added that there was also interest in moving to a single weighted sales factor apportionment formula. Mr. Rosenthal also noted that there had been a couple of pitches for reducing capital gains taxes for QHTCs from Mayor Gray's office that the Commission must consider.

He then noted that the Commission was also still debating the possibility of adopting a local services fee or PILOT program. Mr. Rosenthal explained that the service fee option had been modified to exempt businesses with four or fewer employees. This exempts more than half of D.C. employers, but 90% of employees in D.C. work for large employers

Mr. Williams suggested that the Commission seek a formal opinion on the legality of this option.

Mr. Ein commented that although he would suggest protecting from collateral damage by carving out smaller non-profits and the like, big non-profits that are well funded should be required to pay.

Mr. Rosenthal said that the idea is to cut the franchise tax, and to offset it somewhat with this fee.

Ms. Hinze expressed concern that the Commission was attempting to tax for services, yet these companies are paying property taxes though their rents. She also warned this fee would not reach those who do not file quarterly wage reports like partners or contractors. She noted that she spends a lot of time sorting out improperly filled reports from businesses.

Mr. Rosenthal said that if the funds were used to cut taxes for tax-paying businesses, the losers would be law firms that do not pay franchise taxes and nonprofits.

Mr. Ein pointed out that a small dollar amount per head will be fine for law firms.

Mr. Lazere said that this would help the Commission pay for some its tax relief and broaden the city's tax base.

Mr. Rosenthal then asked the Commission to consider the color coding of the property tax options. He explained that there is some interest in reducing commercial tax rates, which are high, but this would be a very expensive change. He added that every penny of property taxes would cost $6 million in revenue.

Mr. Williams noted that another idea was to consider doing this in certain specific parts of D.C.

Mr. Tucker said that looking at the optics, the Commission would be better off focusing on individual income tax rates and franchise tax rates.

Ms. Whiteman asked whether the option to reduce the commercial property rates would do so all at once or be phased in. She noted that the Commission had discussed a possible phase in reduction after there was push back on reducing the rate all at once. She then asked if the Commission wanted to do anything regarding Class 3 and 4 properties.

Mr. Rosenthal raised the testimony of the former administrator in charge of blighted and vacant property, in which the Commission head that the system is working pretty well.

Ms. Whiteman noted that this is not what she heard. She heard that there is a low collection rate, and that there are other issues with administration. She suggested that the Commission consider thinking about what else could be done.

Mr. Rosenthal noted there were extensive reports and lengthy discussions on trying to develop a PILOT program, which could get funds from non-profits, but the Commission heard testimony during the last public meeting that nonprofits provide such large benefits and ought to be spared from tax altogether.

Mr. Tucker said that in the case of the hospital association, this argument may be valid, but that universities, as far as he is concerned, get a tremendous amount of benefit from the city and don't pay any property tax.

Ms. Reuben said that the Commission should have some language in its recommendations which describes its deliberations about implementing a PILOT, as a strategic way to encourage the Council to see the comparable benefit of a local services fee.

Mr. Ein noted that broadening the tax base is a good idea and would fill the gaping revenue hole from the Commission's other suggestions. He added that these companies are not part of the tax base and that the Commission should try to get them within the base somehow. He said that this is the idea is sustainable in the long-term, although it may take an ounce of pain to get it there.

Ms. Collins said that in order to avoid a PILOT in Virginia, you have to show that you are benefitting the community.

Mr. Rosenthal said that the staff had tried to find a revenue neutral way to solve the "notch" problem in the deed and recordation taxes but that it was difficult to do in a revenue neutral way.

Ms. Hinze asked about the idea to give credit to D.C. homeowners who sold and bought in D.C. at the same time.

Mr. Rosenthal this would be too administratively burdensome to implement.

Mr. Rosenthal noted that there were additional suggestions on tax administration and review, which Mr. Widdicombe would provide to the Commission and send to the new CFO.

VII. Commission Business

Mr. Williams asked where the Commission was on the notion of dynamic scoring analysis. He asked whether the Commission would consider doing multi-year impact analysis or stick to snapshots.

Mr. Lee answered that the only workable option is to stick to a single-year projection model.

Ms. Collins suggested that the Commission should include it's rationale in recommendations instead of a fixed dollar amount.

Mr. Williams said that the Commission may not end up with enough recommendations that target competitiveness, and that his last administrative point is to make sure that as it relates to the head tax and PILOT, that there is some legal basis for doing each of them.

Mr. Widdicombe said that the Commission is required to deliver legislation to the Council, and that this requires a fiscal impact statement.

Mr. Williams added that restaurants, parking and hotel taxes should not be increased because D.C. is trying to expand tourism and that these industries provide quality jobs for low, middle and high income residents. He added that these taxes are already very high. He said he wanted his opinion to be noted, on the record, that it is a big mistake to increase these taxes.

Mr. Williams thanked everyone for their hard work, and gave special acknowledgement to the efforts of Mr. Rosenthal and Mr. Auxier over the last several months.

VIII. Adjournment

Mr. Williams announced that the meeting was adjourned at 6:10 p.m.