

## **APPENDIX 2**

# **IMPACT OF USING VALUE CAPTURE TO TRANSFORM THE DISTRICT'S PROPERTY TAX INTO A PUBLIC SERVICE ACCESS FEE**

The following pages contain an analysis of the impacts of using value capture to transform the District's property tax into a public service access fee.

In 1990, the author was working as a staff member for the Honorable Hilda H.M. Mason, an at-Large member of the Council of the District of Columbia. In that capacity, I obtained actual assessment from the Department of Finance and Revenue, as it was known at that time. I worked with a group called the Pro-Housing Property Tax Coalition to analyze the impact of shifting the property tax off of building values and onto land values.

In a revenue-neutral exercise, shifting the property tax off of building values and onto land values will have the effect of reducing taxes for properties that have a higher building value to land value ratio than the citywide average. Likewise, it will increase taxes for properties that have a lower building value to land value ratio than the citywide average. Therefore, it was important to separate vacant property from improved property when analyzing the impacts of this change.

In 1990, the District had a classified property tax system with four classes of property. That year, the Council enacted "Class 5," which was a special class consisting of vacant land and unoccupied buildings. The attached testimony from 1991 expresses agreement with the goals behind the penalty tax on vacant lots and boarded-up buildings, but disagrees with the methodology being used.

The attached analysis shows that shifting the property tax off of building values and onto land values tends to be progressive. Although there is no direct relationship between the total value of property and an owner's ability-to-pay taxes, there is a greater relationship between the value of land and an owner's ability to pay. (A similar study, with a similar result, was performed by the Department of Finance and Revenue in the 1970s.)

Not only does this tax shift provide economic benefits to middle- and low-income neighborhoods, it also provides tax relief to commercial properties in neighborhood commercial centers. These neighborhood commercial centers are very important to the livability of their surrounding residential neighborhoods and they often serve as sources of employment for District residents.