



D.C. Tax Revision Commission

REVISED

MEETING MINUTES

Subject: D.C. Tax Revision Commission Kick-Off Meeting
Date: August 6, 2012
Time: 4:00 p.m. to 6:00 p.m.
Location: 1156 15th Street, NW, Suite 600, Washington, DC 20005

Members Present:

Anthony Williams	Tracy Gordon
David Brunori	Fitzroy Lee
Catherine Collins	Teresa Hinze
Mark Ein	Nicola Whiteman

Members Not Present:

Ed Lazere
Pauline Schneider
Stefan Tucker

Invited Speakers:

Vincent Gray, Mayor of the District of Columbia
Phil Mendelson, Chairman of the D.C. Council
Natwar M. Gandhi, D.C. Chief Financial Officer

Staff:

Kevin Clinton

I. Call to Order (Commission Chairman)

Mr. Williams, Chairman of the D.C. Tax Revision Commission, called the meeting to order.

II. Commissioner Welcome and Introductions

Mr. Williams welcomes members and the public to the first meeting of the D.C. Tax Revision Commission and thanks Mayor Vincent Gray, Chairman Phil Mendelson, and D.C. CFO Natwar Gandhi for joining the Commission. Members of the D.C. Tax Revision Commission introduce themselves

Welcome from Mayor Vincent Gray:

Mr. Gray thanks Mr. Williams for serving as Chairman of the Commission and thanks Chairman Mendelson and CFO Gandhi for their contributions to the Commission. During the period of the last Tax Commission in 1998, the city was in a different condition. The city's economy was weak and people were leaving the city. We are in a different place now. Our population is growing by 1,000 per month and stands at 618,000 now. We have reduced unemployment from 11.2 percent to 9.1 percent since I took office 10 months ago. We have had 17 consecutive balanced budgets and our fund balance is growing and it is back up to \$1.1 billion. Our work today is certainly not a complete overhaul of our tax system, it is a way of looking at whether our tax system is aligned to the way our city is going.

As part of my One City Action Plan, our goal is grow our city and our tax system is part of that. We have submitted legislation called the Tech Sector Enhancement Act to attract technology firms to DC and improve upon the current set of incentives in place. We would like the Commission to look at lowering the commercial real estate tax rate to encourage firms to locate in the city and fill vacancies and perhaps generate more revenue over time or attract more businesses to areas where economic development lags such as those east of the river; taxing municipal bonds including the upsides and the downsides of this; and perhaps getting rid of the corporate franchise tax; and maybe trying to reverse the conversation about a commuter tax by looking at incentives for people to work for the city and live in the District of Columbia.

Chairman Phil Mendelson

Mr. Mendelson thanks Mr. Williams and each of the Commissioners for agreeing to serve and acknowledges Bob Ebel as Chair of the 1998 Commission. The overall goal of the 1998 commission had four goals: the revenue system should raise adequate revenues, be equitable for residents and businesses, be simple to understand and for the District to administer, and make it desirable for residents and businesses to stay in the District. These goals are still important today. A high priority of the 1998 Commission was to look at whether the tax structure was responsible for decline in tax base and population and whether changes in our taxes could stimulate the tax base and economy. Mr. Mendelson believes that the role of taxes is overstated but encourages the Commission to look at this. It is also important to look at taxes from an equity perspective and having some progressivity in our tax system is important.

While we complain about the limitations of our tax base caused by the federal government, there are areas where the federal government does pay such as our gross receipts tax and our

E-911 fee. Often the work of a tax revision commission is impeded by political interference and he will do what he can to impede political interference because the Commission's recommendations should come from the Commissioners and not the city's leaders. However, many recommendations of the previous Commission were not adopted and this Commission should look at why this was the case and consider making recommendations that are likely to be adopted. The 1998 Commission was interested in taking a blank state and designing a new tax system but looking at recommendations that are acceptable is also important.

The Commission has been given a short timeline and to the extent that the Commission needs additional time he is willing to work with the Commission to provide it.

Chief Financial Officer Natwar Gandhi

Dr. Gandhi acknowledges Mr. Williams, the Commissioners, the Mayor, Chairman and the chair of last Commission, Mr. Bob Ebel. Borrowing from the last Commission report, there are four areas where there are opportunities to improve the tax system. The first is to simplify the real property tax system, the previous Commission recommended reducing the number of tax classifications from five to two; this change was adopted at the time and since then the District has gone back from two to four. In addition, for good reason we provide a great deal of relief in our real property taxation such as the 10 percent cap, the homestead deductions, the senior credit and the tax deferral program. All of these are important but they add to the complexity of the system. A great deal of our abatements and exceptions are on an ad hoc basis and it would good to have the Commission think in terms of rationalizing these abatements and exceptions.

The second area is to look at broadening our tax base. We have a very narrow tax base in the city. This is one of the only places in the world where we don't tax income at its source. We tax only \$34 out of every \$100 earned in our city. We have extensive tax exempt property such as the federal government, organizations such as the World Bank, and institutions such as hospitals and universities. A total of 12 of our 15 largest employers do not pay real property taxes. Congressman Darrell Issa has raised the issue of considering a commuter tax. An increasing number of purchases in the city are being made by ecommerce and we need a federal resolution to the taxation of ecommerce. We need to look at reducing inefficiencies and inequities in our tax system. You have examples where two neighbors in identical houses are taxed differently. We also have the issue of revenue adequacy as our population increases - do we have a revenue system that adjusts to the needs of a growing city.

Anthony Williams

I would like to share a few thoughts. In any Commission there is a threshold issue of legitimacy that needs to be overcome. We don't want to be a Commission where our work is forgotten. We want to have a meaningful impact on the civic life of our city.

One issue we have to address is the issue of unintended consequences. Periodically a close look should be taken at state and local (and DC is a state/ local *system*) fiscal arrangements to learn how the system is operating as a whole in order to achieve its agreed-upon normative objectives.

Over the years, small actions taken to address specific sort run concerns can lead to a patch-work system that has become (i) overlapping or even contradictory in its use of policy tools and (ii) unnecessarily complex in a manner that thwarts the accomplishment of originally intended objectives, including that of promoting the transparency and accountability of the public sector. We never take the time to clean up to the pre-existing layers of regulations and the Commission's role is to clean those up.

We are going to look at the issue of equality versus efficiency. There are things you do to look for more efficiency like for example user fees such as tolls are considered efficient because those who use the road pay for the road, but then you have the issue of a poor person who uses the road to get to and from work. There can be a conflict between efficiency and equality.

Another issue is the divide between a broad based tax system and a tax system looking at pursuing certain outcome. A broad-based tax system is efficient but at times we are posed with the prospect of a major investment in our city or business locating in our city and we may want to consider a special concession or abatement.

Among many other issues, part of justice under law, is that we want a system that is accessible and transparent. A system that is not transparent is a dangerous thing. We want to have a tax system that is more accessible and more transparent is a good thing and we should strive for this objective.

Last, it is in our founding document to pursue the general welfare and the public good and we want the public realm to be better than when we started and we would like for our work to lead to general welfare.

Catherine Collins

Having spent the past two years looking at the property tax structure across the United States, I would like to spend some time simplifying and clarifying the property tax system.

Teresa Hinze

I would like for us to look at the transparency of the tax system and the ease of compliance with the tax system, for both individuals and small businesses.

David Brunori

I look at a tax commission as a whole lot of good possibilities. I look at tax reform like Bob Ebel did in 1998 where there was a lot of paying attention to broad principals of sound principals. These principals have been vetted and it has been demonstrated that they work.

Tracy Gordon

Tax policy is important on a local and national level and DC has some wrinkles due to federal presence and non-profit presence. She is interested in demographics of the city including the high per capita income and high poverty rate and high cost of doing business in the city. The tax system is linked to the larger economy of the city and she will be interested in linking the tax system to the expenditure side of the budget.

Nicola Whiteman

I think it is important to look at the tax rates to the extent that we are competitive with other jurisdictions and we are not in the real property tax rates and looking at whether they can be reduced to further certain public policy goals and to look at tax administration and whether resources are sufficient to administer the tax code currently in place.

Fitzroy Lee

I think the important part is revenue adequacy. Since the last tax revision commission the city has changed in many ways – the population has grown and we have seen a restored economic vitality. The key is to design a system in which taxes will grow as the city grows and changes to meet the city's needs over the long term.

Mark Ein

I am excited to be part of this and this is a great opportunity to help the District and its economy by understanding these issues and while progress has been made there is an opportunity to position us both regionally and nationally as a place where people and business want to come.

III. Tax Revision Commission Business

a. Commission Protocols

Participation

The Commission shall allow participation via conference call and Commissioners may assign someone to attend meetings on their behalf and contribute to the discussion but they may not vote. The phone option is the best alternative for Commission.

Criteria

Early in our work we will vote on a set of criteria for judging a revenue system. This will be the first “vote” of the commission.

Timing on Specific Recommendations

With this early exception, voting on substantive tax issues is not likely to occur until the end of the Commission’s work. We should wait until we have a full understanding before voting on specific issues. Voting on the entire package is a good approach because individual changes may be inequitable individually but when taken as a whole with other changes they reflect a better approach.

Majority Voting

Although the Commission’s authorizing legislation requires the votes of six members for approval, the Commission will strive for unanimity in the final set of recommendations. However, many tax issues are controversial by nature and unanimity may be hard to achieve.

In the final report, members will be able to express minority opinions that will be included in the final report.

Independent Instrumentality

As an independent and autonomous entity, we need to be sure not to be swept into the vortex of public debate and politics throughout the term of the Commission.

Spokesperson

The Chair of the Commission shall serve as the chief spokesperson for the Commission.

Relationship with the Public

We will have a premier website that invites social engagement in our work as we shape our work and address individual problems.

b. Commission Meeting Schedule

Commission Meeting Schedule

The meetings will be held the first Monday of the month with the exception of September where we will have Labor Day intervening.

c. Public Hearing Schedule

Public Hearing Schedule

There will be a series of public hearings at the beginning of our process. We want to invite people to participate in our meetings. We want to invite economists, civic and business leaders to participate and meetings. The Tax Revision Commission proposes to have a public seminar on our economy.

d. Commission Deadline

The Commission will request the Council to extend the term of the Commission to June 30, 2013. This will provide the Commission with the necessary time to commission studies externally and produce the best and most thoughtful product.

e. Commission Staff

Next I would like to turn my attention to our staff. As you know the Commission has a budget for staff, external research and the production of our final report.

Mr. Williams recommended that Kevin Clinton serve as Executive Director of the Commission. Kevin served in my administration and acted as my budget and financial advisor with responsibility for advising me on tax and fiscal policy issues. He also served for over four years in the Office of Revenue Analysis under the former Deputy CFO, Julia Friedman. In this capacity, he worked on research related to the District's structural imbalance; the long-term financial plan and the District's fee structure. He also has considerable management expertise through roles as the Agency Fiscal Officer for the State Superintendent of Education and other government management and advisory roles in Detroit, Pittsburgh, South Carolina, and Richmond, VA.

Kevin will be responsible for hiring the Commission's staff and will be targeting his efforts to bring on Bob Ebel who is recommended for Director of Research. Many of you know Dr. Ebel from his role as Chief Economist and Deputy CFO for Revenue Analysis in the District of Columbia. He is also one of the country's pre-eminent experts in tax policy Commissions, having served as Staff Director for Commissions in Minnesota, South Carolina and Hawaii and also having served in my role as Chairman of the previous D.C. Tax Revision Commission in 1998. Most recently, Dr. Ebel co-edited the Oxford Handbook of State and Local Government Finance which provided a comprehensive review of the economic, revenue and expenditure issues facing state and local governments nationwide.

The Commission approved the appointment of Kevin Clinton as its Executive Director and Bob Ebel as the Director of Research for the Commission.

Mr. Williams noted for the record that Kevin is serving separately with no relationship to his work with the Tax Revision Commission on his staff at the Federal City Council and there is no relationship between the two. He will serve in both roles on a half time basis.

Mike Bell is under consideration to serve in a tax research capacity on behalf of the Commission. Mike is currently a research professor with the George Washington Institute for Public Policy and is an expert in international tax policy system. He has helped governments across the world develop tax policy structures on a national level. He also is experienced in domestic tax commission work having served in a staff role on the Commissions in D.C. and Minnesota. Dr. Bell has published and researched extensively on property tax and tax expenditure issues facing local governments.

The Commissioners approved this action.

The Commission is in discussions with the University of the District of Columbia to serve as a home for the Commission and our staff over the course of its work. The UDC business school under the leadership of President Allen Sessoms and Dean of the Business School Richard Bebee are rolling out the red carpet for us and this relationship is in the process of being formalized.

IV. Other Business Before the Commission

The Commission will look to meet once a month at the beginning of its term and will meet two times a month towards the end of its term.

Members of the public and the administration will be welcome to participate and address the Commission, organized around selected issues that are under consideration by the Commission.

The Commissioners discussed how to submit requests for scoring different proposals. The Office of Revenue Analysis (ORA) within the OCFO will provide estimates and “scoring” of various proposals. Any requests should come through the Executive Director of the Commission and the ORA will provide an estimated timeline for completing that analysis. Information should be public to other Commissioners through a central clearinghouse for all requests that are submitted to ORA.

There was a discussion about whether revenue neutrality should be a goal of the Commission. There are various approaches to discuss including whether it should be defined for any particular year or over the course of time and whether neutrality should be defined for individual taxes or across all taxes. The impetus of this discussion is that the Commission is not in the business of raising taxes or cutting taxes – this is not the Commission’s discretion. This will be discussed in more detail at the next meeting.

The Commissioners discussed the criteria for judging whether the TRC will have been “successful” including the following:

- Did the Commission raise the level of the District’s fiscal (tax) policy discussion? Did the commission cut through the veil that is often placed over popular devices such as the anecdote and survey respondent bias? Recognizing that there is no “perfect” or “right” tax, did the Commission make clear to rule out the “off-the-table” options/that is, those that just did not fit with (a) the Commission’s agreed upon goals and objectives for the District’s revenue system and (b) are in clear conflict with the goal of capturing the fiscal benefits from the District’s economic, demographic, and fiscal structure?
- Did the Commission ask the “right” questions and was it transparent in its Operations? A key job of the commission is to make a systematic and learned review of the economic and revenue policy of the District. To help accomplish this objective did the Commission act transparently with its citizens, including holding formal public hearings as well as keeping its record “open” for public comment throughout its working period?
- Was the Commission honest with the numbers and provide transparently honest answers to the questions before it? Did the Commission adequately document and publish its Findings and Recommendations? Is the Commission’s Final Report written in an accessible way that the non-technical person can understand? Was the Commission adequately funded, managed, and given time to do its work to produce an acceptable work product?

- The Commission can play an important role in understanding the policy behind tax abatements and bring transparency and clarity to the overall tax code would be helpful.
- What is important is not just the recommendation but what got the Commission there and the public record behind the work will be important. The work the Commission does can serve as a baseline and source of information in the future.
- Budgets are way too important to leave to the accountants and public participation will be critical. It will be important to incorporate information provided by the public. Input from members of the public will be considered and be factored into the Commission's deliberations and great weight will be provided to those contributions that are based in fact and supported by data and analysis. The public meetings will be an opportunity to hear from a broad range of people to provide input into the Commission's research topics. It will also be critical to have an internet presence with information available to the public.

There will be a discussion at the next meeting about what constitutes a quorum and whether a quorum can be achieved through electronic participation.

Lastly, Mr. Williams mentioned for the record that Councilmember Evans had a long-planned family vacation and could not be here but he is a supporter of our work and will join the Commission at a future meeting.

Adjournment (Commission Chairman)

The meeting was adjourned.