

# Breaking Away

How TIFs, Abatements and other Economic Development Tax Subsidies Shortchange the District

BY LIZ WILLIAMS AND ELISSA SILVERMAN

District leaders celebrated the opening of Target in Columbia Heights last year with all the fanfare of a great civic victory. Finally, DC residents would be able to buy Target's stylishly affordable items without schlepping to the suburbs, and DC would collect the tax dollars!

Luring the big-box retailer to the city wasn't cheap, however.

The price tag? About \$43 million in DC taxpayer money.

That's how much the District gave in tax subsidies and other incentives to developers of DC USA, the 540,000-square-foot shopping center that's home to Target. Which means it will be a while before the sales tax on all those Michael Graves-designed tea kettles and Mossimo hoodies make it into DC coffers. Right now, those tax dollars are paying back the \$43 million DC put into the project.

Public money offered by DC to developers has grown substantially in recent years. Almost \$350 million was given through "tax increment financing," tax abatements, and other tax subsidies for commercial development projects between January 2007 and December 2008, according to an analysis of legislation by the DC Fiscal Policy Institute. We will explain how these financial mechanisms work below.

Just like in budgeting, economic development should be a balancing act. Cities like the District need to invest a certain amount to promote economic growth. But that money should be handed out judiciously and with scrutiny and oversight. Our leaders often treat economic development tax breaks as Monopoly money, because revenue lost is in the future and often not calculated in budget documents. But the tax abatements,

exemptions, and other subsidies are real tax dollars that could otherwise be used to pay for road maintenance, public schools, police, and other services in upcoming years.

### TIF: Missing the Real Target

So how did Target come to the District? After years of economic decline, Columbia Heights was ripe for revitalization with a new Green Line Metro station that made the neighborhood attractive to homebuyers and renters. Eager to spur retail development along the 14th Street corridor, then-Mayor Anthony Williams and the DC Council approved legislation declaring the area around the proposed DC USA project—a city block at the corner of 14th and Irving Streets NW—a "TIF district."

TIF, or tax increment financing, sounds complicated, but it's basically financing the city gives to help pay for

a project. The rub is that the money is paid back not by the developer but by the city, through the incremental increase of sales and property taxes generated by the new project. In the case of DC USA, the District issued \$42 million in TIF subsidies for the shopping center's construction, including an underground parking garage, which the city will be repaying for as long as 20 years. An additional \$1 million was given in sales and property tax exemptions.

Many TIFs get approval with little scrutiny or public input. Take a recent \$1.9 million TIF subsidy passed by emergency legislation this spring in the DC Council. The urgent project? Construction of a CVS pharmacy across the street from the Petworth Metro on Georgia Avenue NW.

The use of TIFs has become increasingly controversial in many cit-

## RECENT DC ECONOMIC DEVELOPMENT TAX SUBSIDIES

TAX INCREMENT FINANCING		ABATEMENT/EXEMPTION	
Recipient	Amount	Recipient	Amount
City Market at O Street Mixed-use development	\$46.5 million	National Public Radio	\$5.1 million over 4 years
Mandarin Hotel	\$45 million	View 14 condominiums	\$5.7 million over 20 years
International Spy Museum	\$6.9 million	Eckington One	\$6 million over 10 years
Shakespeare Theatre	\$20 million	American Psychological Association	\$8.26 million since FY2006
Skyland Retail Complex	\$28.5 million	Urban Institute	\$15 million over 10 years

ies. Initially, TIFs were conceived to spark development in blighted neighborhoods that couldn't attract investment without government subsidies. But studies have shown that in many cases cities have created TIF districts in areas that developers were already considering desirable, often in or around downtowns.

Moreover, the District often offers assistance before figuring out just how much money a development really needs. In the case of the O Street Market, a mixed-use development at 7th and O Streets NW in the gentrifying Shaw neighborhood, the District offered \$46 million before the developer had put in any money of its own. DC's Chief Financial Officer concluded that the need for a city subsidy was unclear. Yet the O Street Market TIF was approved by the DC Council anyway.

### Tax Abatements: Forgive and Forget

Right across the street from Target is Highland Park, a high-end housing complex on top of a Columbia Heights Metro station entrance. Earlier this year, legislation was introduced in the DC Council to give the developers of Highland Park nearly \$10 million in tax abatements for that project as well as another mixed-use project on top of the Petworth Metro station.

Legislation granting abatements has spiked in recent years. Just since this January, some 14 tax abatement bills have been considered by the DC Council. If they are all approved, they would lead to over \$51 million in lost revenue when fully implemented. In Council Periods 16 and 17, which cover 2005-2006 and 2007-2008, the Council exempted \$48 and \$46 million from the tax rolls.

Abatements differ from TIFs in one significant way. A TIF usually requires a "gap analysis" by the city's Chief Financial Officer to determine whether the project would not be able to move forward "but for" the public subsidy. No such process exists for tax abatements. Instead, developers can ask for property or sales tax breaks without having to prove why they need it.

Moreover, despite the intention

of subsidies to spur new development, city officials often introduce tax abatement legislation for property already built or nearing completion. This is becoming even more common now, because the recession has impacted the financial viability of many projects.

Take Highland Park and the new Park Place at Petworth apartments, for example. Park Place is already leasing units, and Highland Park had been fully operational for four full years when the Council introduced legislation in April that would grant the developers a substantial tax break over the next twenty years.

Highland Park isn't the only project that has been looking for money. NPR, the Urban Institute, View 14 apartments, and the National Law Enforcement Museum recently got tax breaks from the city.

The economic recession is hurting everyone, but short-term cash flow problems of private developers shouldn't turn into long-term revenue problems for the District. Legislation introduced this year by At-Large Council member Michael Brown would require developers who apply for a tax abatement to document why assistance is needed, and to undergo a financial review by the city's Chief Financial Officer. That's a great step, and we hope the Council passes the bill this fall.

In the end, the simple fact is that when the District provides tax subsidies for development, funds which would be available for public services use are not, often for a long time. The practice of publicly subsidizing economic development is draining our treasury and available resources for years to come.

When the city's finances were strong a few years ago, and tax collections were rolling in, a few million here and there for development was less noticeable. Now that the economic downturn and sharp revenue declines have forced the District to cut back in numerous ways, we can no longer afford to be so careless.

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