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GIVING AWAY THE STATION:
Tax Break for Union Station Would Cost City Tens of Millions in Revenue

The DC Council is considering a permanent property tax exemption to the commercial shopping center in Union Station, as well as to future businesses that may operate out of the Union Station garage, such as Greyhound Bus Lines. Bill 18-220, which is expected to have a first reading at the Sept. 21 legislative session, should be voted down for three main reasons:

- **Tens of Millions in City Tax Revenue Will Be Lost.** Bill 18-220 will give a permanent tax break starting in Fiscal Year 2016 to businesses operating within Union Station, exempting Starbucks, Ann Taylor, and Victoria's Secret, and many more businesses from paying commercial property tax to the city. The Office of the Chief Financial Officer says the fiscal impact would be "substantial."

- **It is Unfair Tax Policy.** The Union Station tax break would undermine DC's efforts to tax for-profit commercial activity in federal buildings, an important issue in a city with a substantial amount of tax-exempt land. If the bill were passed, the Starbucks in Union Station would not pay commercial property tax, while Sidamo Coffee & Tea a few blocks away on H Street NE would. The bill would exempt Union Station businesses from the possessory interest tax, which was created so businesses located on federal land would be taxed fairly and equally to other businesses in the District.

- **It has Deceptive, Hidden Costs.** The Union Station tax break has been structured to push lost revenue into the out years, by starting the exemption in FY 2016. As a result, the fiscal impact statement says the tax exemption has no immediate fiscal impact, because DC rules only require costs to be measured in a four-year window. Yet the statement says that the costs in the out years will be substantial and "all of which are not possible to estimate at this time."

These points are discussed in more detail below.

Background

Union Station is a federal property, and therefore it is exempt from DC's property tax. But a large portion of the building is used for commercial purposes, including a busy food court and numerous other retail stores. Although the District does not levy a property tax on Union Station, DC law authorizes the city to levy what is known as a "possessory interest tax." The possessory interest tax is effectively a property tax levied on the commercial activities that occur in tax-exempt buildings. The possessory interest tax matches DC's commercial property tax, using the same tax rate and structure. It levels the playing field so that for-profit enterprises operating in space leased from the federal government will pay property taxes like any other commercial business.

The bill before the DC Council would exempt Union Station businesses from the possessory interest tax starting in 2016, and the exemption also would apply to any future development in the Union Station garage. (An intercity bus terminal is planned for the garage, which would include operators such as Greyhound.)

The Union Station Tax Exemption Would Have High and Rising Costs.

Bill 18-220 would cost DC at least $1.4 million per year starting in FY 2016, according to the CFO. By FY 2035, the accumulated loss to the city is estimated to be $34 million. The bill is structured so that Union Station businesses would make payments in lieu of taxes through FY 2015. The payments from FY 2012 to

FY 2015 are equivalent to what should be paid each year if the city's possessory interest tax was applied. Yet in FY 2016, the businesses in Union Station would no longer pay taxes. Ever.

And the cost to the city could rise if Union Station's garage is developed. The foregone tax revenue could be even higher than $1.4 million if the garage at Union Station is ever developed for commercial use.

It is very rare in DC to give businesses permanent tax breaks**.** The fiscal impact statement issued by the Chief Financial Officer noted that permanent tax breaks for commercial properties in DC are very rare, and that reversing such a tax exemption in the future would be very difficult to do.

Bill 18-220 will have a real impact on how the District can fund services and programs.
Only a few months ago, the DC Council deliberated how best to balance the upcoming year's budget in these tight fiscal times. In the end, not all programs received the same funding as in the year before. One such program was the emergency rental assistance program, which was cut by $1.3 million. That $1.3 million, equivalent to taxes Union Station owes each year, would not be available in the future to help families in need.

The Union Station tax exemption would undermine tax fairness.

Roughly 40 percent of land in the District is exempt from the DC property tax, much of it federal property. That's why the District created the possessory interest tax, which allows the city to tax commercial businesses located on federal land. The possessory interest tax is a common-sense effort to treat commercial properties located in federal buildings the same way the DC tax code treats businesses located on privately owned land. Eliminating the possessory interest tax at Union Station would move DC in the wrong direction in this important effort.

Very simply, the tax exemption would give a competitive advantage to businesses on federal land. There is no reason that the Starbucks in Union Station should be free from paying property taxes, when Starbucks in other locations across the city pay their taxes. There also is no rationale for providing a tax exemption to all the businesses in Union Station, a thriving commercial area, when businesses in other areas pay their taxes in full. The supporters of the Union Station tax break have not made a strong case for receiving this very generous and special tax treatment. Nearly all commercial property owners pass the cost of property taxes on to their tenants. There appears to be no reason why the non-profit that manages Union Station cannot pass on the possessory interest tax to the retail tenants of Union Station.

The Costs of the Union Station Tax Cut Are Hidden.

By starting the tax break in FY 2016, the Union Station tax exemption appears to have no fiscal impact on the city. This is a bit of financial trickery, because the fiscal impact is only measured in a four-year window. FY 2016 is the next year, just outside that window.

According to the CFO, the city is estimated to lose $34 million over the next two decades due to this costly, unfair, and deceptive tax break. At a time when the city faces large budget shortfalls, adopting provisions that have large future costs without finding a way to pay for them is fiscally irresponsible.

Conclusion

In the end, there is no clear rationale for providing a generous tax exemption to the busy retail center at Union Station. Instead there are many reasons to oppose the tax break, including its high cost and impact on DC finances, its unfairness by providing special treatment to select businesses, and its deceptive, hidden nature of the costs in lost tax revenue. The DC Council should reject Bill 18-220.