PUBLIC HEARING ON CHANGES TO THE HEIGHTS ACT: SHAPING WASHINGTON, D.C., FOR THE FUTURE

Before the
Committee on Oversight and Government Reform
Subcommittee on Health Care, District of Columbia, Census and the National Archives
U.S. House of Representatives

The Honorable Trey Gowdy, Chairman

July 19, 2012 1:30 p.m.
Room 2154, Rayburn House Office Building

Testimony of
Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good afternoon, Chairman Gowdy and members of the Subcommittee. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia and I am pleased to be here for the Committee's hearing on the proposed changes to the Congressional Heights of Buildings Act of 1910 (the Heights Act).

The District of Columbia is a dynamic and growing city. Since 1996, despite two recessions, the District's population increased by 8 percent by adding 46,000 residents.[1] In 2011, the District added more than 1000 residents per month – the greatest annual increase in D.C. population since 1946. From April 2010 to July 2011, the 2.7 percentage growth in population was three times the U.S. population growth rate, and the District was among the top-gaining large U.S. cities. Yet, our potential for growth is nowhere near exhausted: at 618,000 residents we are still considerably short of our 750,000 population level in the early 1970s.

Since 1996, the District's economy has grown significantly. Jobs located in the City increased by 112,100 (or 18 percent) and the average personal income of D.C. residents now stands at $73,105, or 175 percent of national average. This growth has been accompanied by a strong expansion in construction. In 2011, the District had 7.5 percent more apartment units and 26.6 percent more commercial office space than in 2001. Over 8,000 residential units are currently under construction.

With a small footprint of 46 square miles,[2] the District already commands the second highest commercial office rental rates in the nation, and has only a 4.7 percent vacancy rate for Class A apartments. The District's limited real property base is further constrained by height and density restrictions which pose a risk to the city's ability to accommodate further growth in population and jobs.

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[1] In 1996, the District of Columbia's population reached its lowest point at 572,000.
[2] This excludes approximately 23 square miles of water area, streets, roads and alleys.

Today, in my testimony, I would like to focus on three points. First, federal legislation that eases the city's building height restriction is necessary, *but not sufficient*, to expand building capacity beyond what is currently allowed in the District of Columbia. Amendments to the city's zoning regulations must accompany such federal legislation.

Second, while relaxing or eliminating height and density restrictions could eventually have positive financial implications on the city's future tax revenues, the policy is especially important for the city's continued growth. By allowing the District to support more residential units and office space, this change would afford more flexibility to the District in accommodating growing jobs and population. To be clear, changes in height and density restrictions could increase the value of the real property tax base, which accounts for over $1.8 billion in annual tax revenues. But these increases would also be tempered by local property tax relief policies, such as residential and commercial property tax caps.

Third, real property tax revenues are ultimately determined by economic factors such as the number of jobs, office rents, and household incomes which may or may not be immediately affected by changes in the height limit. Accordingly, the realization of higher taxes from increased density will take time, especially given the slow recovery from the great recession and the underlying economic uncertainty. Additionally, we are facing the possibility of federal automatic spending cuts, known as "sequestration," totaling $1.2 trillion over 10 years beginning January 1, 2013. For the District, where federal spending is around 60 percent of the city's Gross Domestic Product, federal cutbacks could drastically slow job and income growth in the District.

Height and Density Restrictions on the City

The Heights Act limits buildings on commercial streets to a maximum of 130 feet (approximately 12 floors) with exception of buildings on Pennsylvania Avenue, which can reach 160 feet (approximately 15 floors). The Heights Act also generally limits the height of buildings on residential streets to a maximum of 90 feet (approximately 8 floors).

Within these parameters, it is the District's Zoning Commission, with significant input from residents that sets the specific building height and density restriction for every building. Even the few federally-initiated exceptions to the height restrictions, such as the Basilica and the Old Post Office Pavilion, were followed by enabling amendments to city zoning regulations.

Given the extensive public hearings that characterize the Zoning Commission's operations, the rezoning process can be long and contentious. It is only after these complimentary legislative and administrative changes are fully implemented that the District of Columbia could realize the full benefits of the changes to this land use policy that has been in place for over 100 years.

District Property Market Fundamentals

In recent years developers, working with city officials, have found creative ways to accommodate the ongoing growth in the demand for housing units and new office space. These efforts include aggressive expansion of development into the eastern half of the city (first to East End, then to NoMa and Capitol Hill, and now to the new Ballpark area), repurposing of large tracts of existing land (such as the Walter Reed site, Saint Elizabeths East Campus, and the site of the old Convention Center), and use of air rights (such as the ongoing Center Leg Freeway project on top of Interstate 395 and the planned Burnham Place over the railroad tracks behind Union Station).

With a dwindling number of large tracts of developable land, increasing the District's development capacity by allowing taller and denser buildings may be an effective public policy response. This policy change will increase potential supply of commercial and residential space and thus raise the value of the District's real property tax base. But the realization of this value increase will take time.

The most direct effect of an easing of density of height restrictions would be through the assessment process. Under our current practices, our assessors will take into consideration the potential increase in the value of highest and best use of each parcel, and re-assess these properties at higher value. Given our assessment cycle, even if such a policy would be in effect by October 1, 2013, the first revenue impact would not be realized until Fiscal Year 2015.

While the policy change would be historic, the immediate effect of this change may be small. The assessors will also recognize that the market response may be slow, especially in parts of the city, such as the Downtown area, where the buildings are already fully leased at relatively high prices, and the developers would likely delay rebuilding until factors other than zoning rules, such as the condition of the building, become relevant.

In parts of the city where development is just taking root, builders might take advantage of the opportunity to build taller buildings, but the relative increase in value in these areas may be modest. Furthermore, if one area, such as Downtown, receives more high-density development, other areas of the city may experience less.

Finally, local laws that are designed to stabilize the volatility in real property tax collections such as the residential and commercial rate cap would further temper the effect of easing of restrictions.

If height restrictions were eased and developers began to build taller and denser, the real property market would take a number of years to fully adjust to the new realities. Ultimately, these changes may take the city's development path in a very different direction.

For example, the District could see much denser development around metro stations than we have today, similar to the Rosslyn/Ballston corridor in Northern Virginia. The annual appreciation rates of land values (and consequently housing costs and commercial leasing rates) would likely increase in some areas while remaining constant or falling in other areas. In the aggregate, however, this policy would increase the city's overall capacity of housing units and commercial office space. The policy could eventually slow the continuously rising cost of housing and commercial office space, which is becoming prohibitive for a growing segment of existing and potential residents and businesses.

Ultimately, real property tax revenues are determined by the number of jobs, office rents, and household incomes which may or may not be immediately affected by changes in the height limit. Accordingly, the realization of higher taxes from increased density will take time, especially given the current economic conditions.

The nation's economy is recovering very slowly from the recent recession, housing crisis and financial crisis which started in 2007. Additionally, the federal government is currently planning to enact automatic spending cuts, known as "sequestration," totaling $1.2 trillion over 10 years beginning January 1, 2013. These cuts will impact both the national and local economies. For the District, where federal spending is around 60 percent of the city's Gross Domestic Product, federal cutbacks could drastically slow job and income growth in the District.

Despite these uncertainties, elimination of the height and density restrictions on the District's already limited real property base could be an important step towards maintaining the city's long term ability to accommodate further growth in population and jobs. This proposal would allow the city more flexibility in its future growth path and we look forward to working with you on this matter.

Biography

Natwar M. Gandhi

Chief Financial Officer

Natwar M. Gandhi is the chief financial officer (CFO) for the District of Columbia and is responsible for the city's finances, including its approximately $7 billion in annual operating and capital funds. He was appointed to this position on June 7, 2000, and was reappointed by Mayor Adrian M. Fenty in January 2007.

As the independent CFO, Gandhi manages the District's financial operations, which include more than 1,000 staff members in tax and revenue administration; the treasury, comptroller and budget offices; economic/fiscal analysis and revenue estimation functions; agency financial operations; and the DC Lottery. He works closely with congressional committees and the US Office of Management and Budget staff that oversee District affairs. He also regularly interacts with the Wall Street financial community, including rating agencies, regarding the District's financial matters.

Gandhi has built on the District's financial progress by securing multiple rating upgrades (a total of 13 rating steps since FY2000) from the major rating agencies for its general obligation bonds, which are currently rated A+ by Standard and Poor's, AA- by Fitch Ratings and Aa2 by Moody's Investors Service. These are the highest ratings ever assigned to the District of Columbia's general obligation bonds. In 2009, Standard & Poor's assigned a rating of AAA to the District's inaugural offering of income tax revenue bonds, which are rated AA+ by Fitch and Aa1 by Moody's.

As CFO, Gandhi sits on the boards of the Washington Convention and Sports Authority and Destination DC.

In 2007, Gandhi was named one of Governing magazine's 2007 Public of Officials of the Year and Washingtonian magazine's 150 most powerful public officials. He was also named one of Washingtonian magazine's 2006 Washingtonians of the Year and was a recipient of the Association of Government Accountants' (AGA) 2007 Distinguished Local Government Leadership Award. His other honors include The Morris & Gwendolyn Cafritz Foundation Meritorious Leadership Award (Inaugural Recipient) and the DC Chamber of Commerce Impact Award in 2005, as well as Achievement of the Year Awards from the AGA (National chapter in 2000 and Washington, DC, chapter in 1999). He also received the President's Award from the Greater Washington Society of CPAs in 2000, and Distinguished Service and Meritorious Service Awards from the GAO.

In 2005, the National Academy of Public Administration elected Gandhi as a fellow for his "sustained exemplary contributions and continuing active commitment to the improvement of public administration." He is also a member of the Metropolitan Club of Washington, DC.

Gandhi holds a doctorate in accounting from Louisiana State University, a master's degree in business administration from Atlanta University, and an LLB and BCom in accounting from the University of Bombay.