GOLDEN TRIANGLE

RCLCO
REAL ESTATE CONSULTING

FISCAL IMPACT ANALYSIS OF THE GOLDEN TRIANGLE, 2019-2023

February 2023

EXECUTIVE SUMMARY

The Golden Triangle Business Improvement District (BID) encompasses a key part of the District of Columbia, representing the western portion of the central business district. Spanning 44 square blocks from Dupont Circle to Pennsylvania Avenue and the White House, the Golden Triangle is home to approximately 37 million square feet of office, 1.6 million square feet of retail, and 2,100 hotel rooms, in addition to three separate Metro stations and various other residential, commercial, and public spaces. The combination of these spaces creates a bustling neighborhood, which serves as one of the largest and most concentrated commercial cores in the District of Columbia; in total, the Golden Triangle represents nearly 11% of the District's workforce, despite taking up less than 1% of its land area.

As a result, the Golden Triangle has long served as a major economic contributor to the District of Columbia. This role is the subject of the following report, which examines the fiscal impact of the Golden Triangle. In FY 2019, the neighborhood generated a significant $603 million in local fund revenues, representing more than 7% of revenues the District collected that year. At the same time, the neighborhood cost the District less than half of this amount to serve, resulting in a positive net fiscal impact of more than $376 million. This relationship—wherein revenues far exceed expenditures—is commonly seen in downtown neighborhoods, which tend to feature high property densities and low social service demands. It also illustrates an important point: That downtowns play a key economic role in the cities in which they are located, generating large amounts of revenues on which those cities rely to provide services for their residents, employees, and visitors.

However, the economic positioning of the Golden Triangle is at risk, and the neighborhood may not maintain its significant fiscal contributions without additional investment to reinvigorate its appeal. Starting in 2020, the COVID-19 pandemic presented unprecedented challenges for downtown neighborhoods across the country, as shelter-in-place orders prompted new teleworking and remote work policies, and as those new policies led to permanent hybrid work models. The impact of these trends on the Golden Triangle is clear; faced with a loss of day-to-day traffic from employees, companies have vacated large swaths of office buildings, and retailers have struggled to achieve the sales they once did (if they even stayed in business). Today, the average occupancy rate for office buildings in the neighborhood—as defined by leased space—sits at 79%, well below the average of 88% from just three years ago. In-person utilization of office space is even lower given the number of employees who split their time between their homes and offices. Likewise, nearly one in three retail spaces is currently vacant, with very few having plans to re-open.

These challenges have fiscal ramifications. In FY 2023, the Golden Triangle will generate $581 million in local fund revenues, representing a 4% drop from FY 2019, even though the District expects overall local fund revenues to be 14% higher than they were at that time. Much of this projected drop stems from sales tax revenue, which is expected to be 22% lower in FY 2023 than it was during FY 2019. While some sources of tax revenue—such as property taxes—have held relatively steady thus far, they are still in jeopardy; for example, office buildings represent the vast majority of real property tax revenue in the Golden Triangle, and elevated vacancies are poised to negatively impact the valuations of these properties going forward. These changes highlight the unique challenges the Golden Triangle faces in its economic recovery. Unlike other parts of the District, including some other areas of broader downtown, the Golden Triangle relies heavily on office workers and business travelers, many of whom now frequent the neighborhood at a fraction of the time they once did, and some of whom may never return.

Continued support is thus necessary to reimagine and reinvigorate the Golden Triangle as a modern-day downtown neighborhood. Now more than ever, it is crucial for the Golden Triangle to adapt to the trends facing commercial cores across the country. With multiple office-to-residential conversions on the horizon, the neighborhood is in the early stages of an evolution from a largely nine-to-five employment core to a vibrant mixed-use community. Diversifying the tax base of the Golden Triangle to include full-time residents is likely to help the neighborhood remain the economic powerhouse it has always been—and can continue to be.

	Golden Triangle BID (in millions)					As Percentage of District of Columbia				
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Gross Local Revenues	**$665**	**$589**	**$650**	**$619**	**$634**	**7.3%**	**6.7%**	**7.0%**	**6.3%**	**6.2%**
Less Revenue Dedicated to Other Funds	($62)	($36)	($37)	($50)	($53)	7.7%	5.6%	5.9%	6.8%	7.1%
Local Fund Revenues	**$603**	**$553**	**$614**	**$570**	**$581**	**7.2%**	**6.8%**	**7.0%**	**6.3%**	**6.1%**
Less Local Fund Expenditures and Transfers	($227)	($246)	($273)	($278)	($288)	2.9%	3.0%	3.2%	2.8%	2.7%
Net Fiscal Impact	**$376**	**$307**	**$341**	**$292**	**$293**					

Note: Some numbers may not add up perfectly, in part due to rounding in the D.C. Budget and Financial Plan.

STUDY OBJECTIVES & METHODOLOGY

The following report highlights how the Golden Triangle contributes economically to the District by analyzing its net fiscal impact, defined as the annual local fund revenues that the neighborhood generates each year, less the local fund expenditures and transfers that are necessary to serve it each year. The objectives of this report were to:

- » Determine the revenues that properties in the Golden Triangle generate to the District of Columbia, on a year-by-year basis for fiscal years 2019 through 2023;
- » Determine the expenditures that are necessary for the District of Columbia to serve the Golden Triangle, on a year-by-year basis for fiscal years 2019 through 2023; and
- » Calculate the net fiscal impact to the District of Columbia during this time.

The analysis starts with a determination of gross General Fund revenues, including real property taxes, personal property taxes, retail sales taxes, meals taxes, hotel taxes, business franchise taxes, resident income taxes, deed transfer and recordation taxes, estate taxes, and miscellaneous revenues, such as economic interest and gross receipts. The analysis then deducts dedicated revenues, such as parking taxes that go toward WMATA, to arrive at local fund revenues. The purpose of this approach is to ensure a direct comparison to local fund expenditures and transfers when determining net fiscal impact.

Revenue estimates are based on property values and real estate trends in the Golden Triangle and the broader downtown area. These estimates utilize parcel-by-parcel information on property values in the Golden Triangle, as well as an inventory of its total housing units, hotel keys, office square footage, retail square footage, and restaurant square footage. Real estate trends are based on data from many sources, including the U.S. Census Bureau, Esri, CoStar, the Golden Triangle BID, and the DowntownDC BID, among others. In some cases, RCLCO leaned on its experience as a national real estate consulting firm to project certain trends; for example, RCLCO assumed parking occupancy rates would follow similar trends as office and hospitality occupancy rates, as the bulk of people who utilize parking garages in the Golden Triangle are likely to be office workers, hotel guests, and their visitors.

The analysis utilizes tax rates as presented in the budgets for FY 2019 through FY 2023. Any comparisons to District revenues and expenditures are based on FY 2019 actual values, FY 2020 actual values, FY 2021 actual values, FY 2022 estimated values, and FY 2023 estimated values, as outlined in the FY 2023 Approved Budget and Financial Plan.

KEY HEADLINES

1

THE GOLDEN TRIANGLE WILL PRODUCE MORE THAN $2.9 BILLION IN LOCAL FUND REVENUES TO THE DISTRICT OF COLUMBIA FROM FY 2019 TO FY 2023, representing 7% of the local fund revenues that the District expects to collect during this five-year period. This share is quite impressive given the size of the neighborhood, which represents less than 1% of land area in the District.

2

THE GOLDEN TRIANGLE WILL REQUIRE JUST $1.3 BILLION IN LOCAL FUND EXPENDITURES DURING THE SAME FIVE-YEAR PERIOD. As a result, the District will receive $2.23 in local fund revenues for every $1.00 of local fund expenditures it uses to support the neighborhood.

3

WITH REVENUES FAR EXCEEDING THE EXPENDITURES NECESSARY TO SERVE THE NEIGHBORHOOD, THE GOLDEN TRIANGLE SERVES AS A VITAL ECONOMIC CONTRIBUTOR TO THE DISTRICT. From FY 2019 to FY 2023, the Golden Triangle will generate a positive net fiscal impact of $1.6 billion, providing the District with important revenue that can help support its goals of building a safer, stronger, healthier, and more equitable DC.

4

THE GOLDEN TRIANGLE WILL GENERATE ANOTHER $238 MILLION TO DEDICATED FUNDS THE DISTRICT USES TO ACCOMPLISH OTHER PUBLIC INITIATIVES. For example, WMATA is a major beneficiary of activity in the neighborhood, receiving 100% of sales tax revenue from commercial parking facilities. Large amounts of other revenues go directly to other funds, such as the Convention Center Fund, the Housing Production Trust Fund, and the Healthy DC and Health Care Expansion Fund. These dedicated funds illustrate the breadth of goals the Golden Triangle helps to support, ranging from affordable housing to health care.

5

HISTORICALLY A MAJOR REVENUE GENERATOR FOR THE DISTRICT, THE GOLDEN TRIANGLE WILL CONTINUE TO EXPERIENCE FINANCIAL IMPACTS FROM THE COVID-19 PANDEMIC. The rise of remote and hybrid work models triggered a loss of office workers from central business districts across the country. From FY 2019 to FY 2023, the annual net fiscal impact of the Golden Triangle will fall from $376 million to $293 million.

6

REVENUES IN THE GOLDEN TRIANGLE HAVE FALLEN SINCE THE START OF THE PANDEMIC, EVEN AS THEY HAVE INCREASED IN THE DISTRICT AS A WHOLE. The Golden Triangle relies heavily on office workers for economic activity, and the absence of a downtown workforce impacts all major sources of revenue the neighborhood generates.

a. **PROPERTY TAXES:** Historically the largest source of revenue in the Golden Triangle, property taxes will account for nearly $1.9 billion—equivalent to nearly 64%—of all revenue in the neighborhood from FY 2019 to FY 2023. While this stream of revenue has held reasonably steady thus far, it remains at risk. Office buildings produce over 95% of property tax revenue in the Golden Triangle, and rising vacancy rates at these buildings are expected to have a substantial impact on near-term assessments.

b. **SALES TAXES:** The number of employees and visitors who shopped, dined, and stayed in the Golden Triangle plummeted during the pandemic, leading to a similar downward trend for sales tax revenue. While now improving, sales taxes are still down 22% from pre-pandemic levels. With hybrid work models and rising office vacancies limiting the core target market of the Golden Triangle, growth in sales tax revenue is likely to hinge on the ability of the neighborhood to expand its customer base to include residents and visitors, in addition to bringing back more employees.

c. **INCOME TAXES:** Income taxes—specifically franchise taxes—represent a consistent source of revenue in the Golden Triangle. Even as other forms of revenue in the Golden Triangle have fallen since the start of the pandemic, corporate and business franchise taxes have steadily increased due to growth in profits. Individual income taxes, meanwhile, remain low but present an opportunity for the Golden Triangle to grow and diversify its tax base by adding a larger residential population in the neighborhood.

7

TO FULLY RECOVER FROM THE PANDEMIC, THE GOLDEN TRIANGLE WILL NEED TO REPOSITION ITS REAL ESTATE TO ATTRACT A MORE DIVERSE SET OF USERS. In doing so, the neighborhood can begin an important transformation, from a predominantly nine-to-five employment center that relies heavily on office workers, to a mixed-use environment that attracts a broader assortment of residents, employees, and visitors. This transformation is likely to grow and diversify the tax base of the Golden Triangle, reinforcing its status as an economic powerhouse.

8

ACROSS THE DISTRICT, THERE IS EVIDENCE TO SUGGEST THAT PUBLIC INVESTMENT INTO EVOLVING NEIGHBORHOODS PLAYS A KEY ROLE IN THEIR SUCCESS. The District has long utilized incentives like Tax Increment Financing ("TIF") and Payments in Lieu of Taxes ("PILOT") to encourage redevelopment and reinvestment in other neighborhoods, such as the eastern portion of Downtown Washington, the Capitol Riverfront, and the Southwest Waterfront, among others. While the District has not yet utilized these incentives in the Golden Triangle, they represent opportunities to hasten the evolution of the neighborhood and stabilize its tax base.

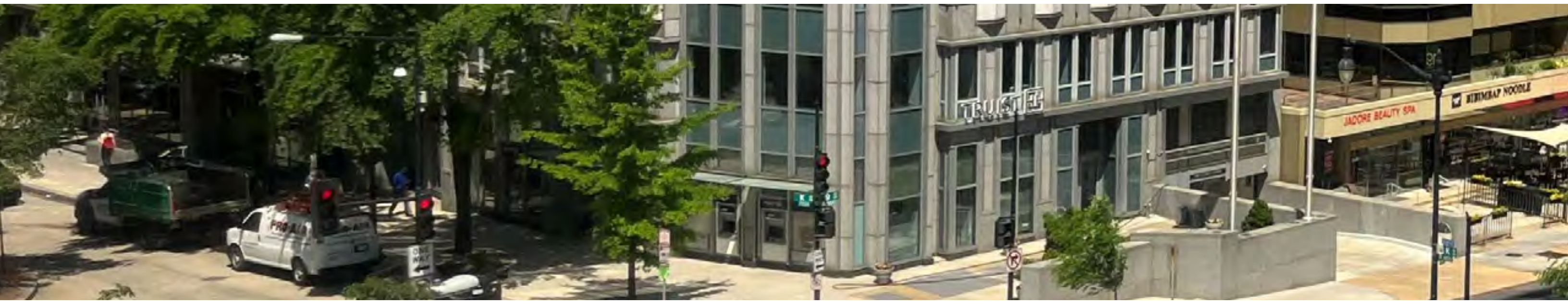
FULL RESULTS

		Golden Triangle BID		
		FY 2019	FY 2020	FY 2021
Local Fund Revenues		$602,565,000	$553,046,000	$613,589,000
Local Fund Expenditures and Transfers		$226,756,000	$246,369,000	$272,614,000
Net Fiscal Impact		**$375,808,000**	**$306,677,000**	**$340,974,000**
Gross Local Revenue				
1	**Property Taxes**	**$368,802,000**	**$373,761,000**	**$403,043,000**
A	**Real Property Taxes**	**$356,047,000**	**$360,815,000**	**$389,282,000**
I	Office	$341,768,000	$345,212,000	$373,446,000
II	Residential	$303,000	$301,000	$302,000
III	Other	$13,976,000	$15,302,000	$15,534,000
B	**Personal Property**	**$8,298,000**	**$8,102,000**	**$8,250,000**
C	**Public Space Rental**	**$4,457,000**	**$4,844,000**	**$5,511,000**
2	**Sales Taxes**	**$124,019,000**	**$65,435,000**	**$52,442,000**
A	**General Sales**	**$121,816,000**	**$63,472,000**	**$50,439,000**
I	General Sales and Tax Revenue	$20,116,000	$12,335,000	$10,180,000
II	Food Service Sales Tax Revenue	$61,491,000	$32,189,000	$23,842,000
III	Hotel Sales Tax Revenue	$19,602,000	$8,176,000	$6,391,000
IV	Parking Sales Tax Revenue	$20,608,000	$10,772,000	$10,025,000
B	**Alcohol**	**$244,000**	**$221,000**	**$238,000**
C	**Cigarette**	**$988,000**	**$915,000**	**$853,000**
D	**Motor Vehicle**	**$4,000**	**$3,000**	**$5,000**
E	**Motor Fuel**	**$967,000**	**$825,000**	**$908,000**
3	**Income Taxes**	**$74,251,000**	**$89,083,000**	**$110,639,000**
A	**Individual**	**$196,000**	**$210,000**	**$217,000**
B	**Corporate Franchise**	**$58,527,000**	**$70,303,000**	**$85,754,000**
C	**Unincorporated Business**	**$15,527,000**	**$18,570,000**	**$24,668,000**
4	**Deed Transfer Taxes**	**$19,733,000**	**$4,402,000**	**$14,913,000**
5	**Deed Recordation Taxes**	**$19,733,000**	**$4,402,000**	**$14,913,000**
6	**Other**	**$58,086,000**	**$51,997,000**	**$54,343,000**
A	**Economic Interest**	**$3,838,000**	**$1,481,000**	**$2,787,000**
B	**Estate**	**$2,000**	**$3,000**	**$3,000**
C	**Gross Receipts**	**$28,919,000**	**$27,900,000**	**$29,156,000**
I	Public Utilities	$13,009,000	$12,071,000	$11,950,000
II	Toll Telecommunications	$2,557,000	$2,615,000	$2,538,000
III	Insurance Premiums	$8,157,000	$8,655,000	$9,849,000
IV	Ball Park Fee	$5,196,000	$4,549,000	$4,736,000

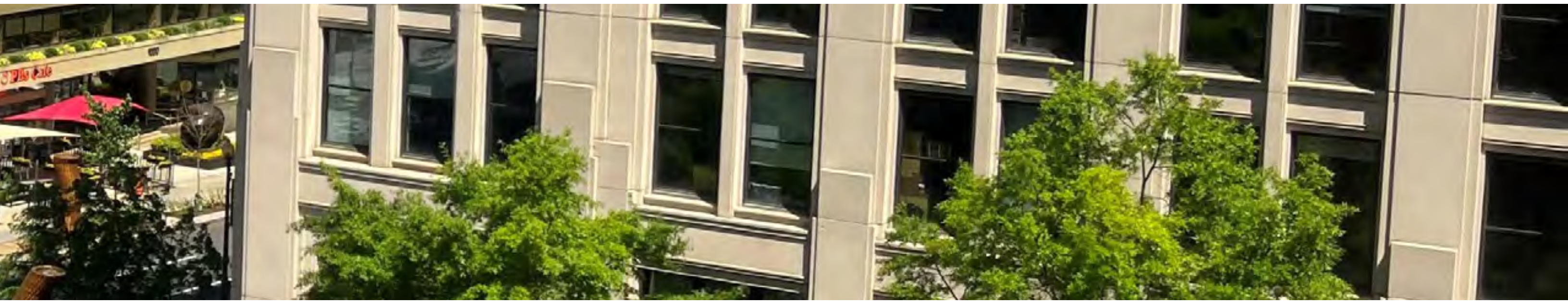
			As Percentage of District of Columbia			
FY 2022	**FY 2023**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
$569,872,000	$580,868,000	7.2%	6.8%	7.0%	6.3%	6.1%
$278,365,000	$287,861,000	2.9%	3.0%	3.2%	2.8%	2.7%
$291,506,000	**$293,007,000**					
$358,144,000	**$372,591,000**	**13.0%**	**12.7%**	**13.3%**	**12.4%**	**12.7%**
$345,239,000	**$361,323,000**	**13.1%**	**12.7%**	**13.4%**	**12.4%**	**12.9%**
$330,218,000	$346,417,000	N/A	N/A	N/A	N/A	N/A
$306,000	$295,000	N/A	N/A	N/A	N/A	N/A
$14,715,000	$14,611,000	N/A	N/A	N/A	N/A	N/A
$8,726,000	**$7,165,000**	**10.5%**	**10.4%**	**10.3%**	**11.5%**	**9.4%**
$4,179,000	**$4,103,000**	**11.5%**	**12.2%**	**12.8%**	**10.9%**	**10.7%**
$90,672,000	**$96,703,000**	**7.3%**	**5.0%**	**4.0%**	**5.5%**	**5.5%**
$88,930,000	**$94,997,000**	**7.6%**	**5.2%**	**4.2%**	**5.8%**	**5.7%**
$14,373,000	$13,993,000	N/A	N/A	N/A	N/A	N/A
$41,847,000	$41,162,000	N/A	N/A	N/A	N/A	N/A
$15,585,000	$18,777,000	N/A	N/A	N/A	N/A	N/A
$17,126,000	$21,065,000	N/A	N/A	N/A	N/A	N/A
$207,000	**$206,000**	**3.5%**	**3.7%**	**3.8%**	**3.3%**	**3.2%**
$720,000	**$704,000**	**3.5%**	**3.7%**	**3.8%**	**3.3%**	**3.2%**
$5,000	**$4,000**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
$810,000	**$792,000**	**3.5%**	**3.7%**	**3.8%**	**3.3%**	**3.2%**
$97,323,000	**$95,552,000**	**2.5%**	**2.9%**	**3.2%**	**2.6%**	**2.4%**
$224,000	**$231,000**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
$74,102,000	**$75,155,000**	**11.5%**	**12.2%**	**12.8%**	**10.9%**	**10.7%**
$22,997,000	**$20,166,000**	**11.5%**	**12.2%**	**12.8%**	**10.9%**	**10.7%**
$12,896,000	**$11,203,000**	**8.6%**	**2.5%**	**6.4%**	**5.3%**	**4.7%**
$12,896,000	**$11,203,000**	**6.6%**	**1.7%**	**5.0%**	**4.0%**	**3.6%**
$47,514,000	**$46,757,000**	**5.4%**	**5.5%**	**6.0%**	**5.1%**	**5.1%**
$2,549,000	**$2,547,000**	**11.5%**	**12.2%**	**12.8%**	**10.9%**	**10.7%**
$3,000	**$3,000**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
$26,038,000	**$25,394,000**	**7.3%**	**7.5%**	**7.9%**	**6.7%**	**6.6%**
$10,275,000	$10,142,000	8.3%	8.8%	9.2%	7.8%	7.7%
$2,699,000	$2,195,000	6.1%	6.4%	6.7%	5.8%	5.7%
$8,361,000	$8,568,000	6.9%	7.2%	7.6%	6.5%	6.4%
$4,626,000	$4,254,000	11.5%	12.2%	12.8%	10.9%	10.7%

			Golden Triangle BID		
			FY 2019	FY 2020	FY 2021
	V	Private Sports Wagering	N/A	$10,000	$82,000
	VI	Games of Skill	N/A	N/A	N/A
	VII	Health Related Taxes	N/A	N/A	N/A
D	**Non-Tax**		**$25,327,000**	**$22,613,000**	**$22,398,000**
	I	Licenses & Permits	$8,970,000	$8,030,000	$8,473,000
	II	Fines & Forfeits	$6,766,000	$5,429,000	$5,287,000
	III	Charges for Services	$2,683,000	$2,522,000	$3,098,000
	IV	Miscellaneous	$6,905,000	$6,629,000	$5,536,000
7	**Lottery**		**$4,000**	**$3,000**	**$4,000**
Gross Local Revenues			**$664,623,000**	**$589,080,000**	**$650,293,000**
Less Revenue Dedicated to Other Funds			($62,058,000)	($36,034,000)	($36,704,000)
Total Local Fund Revenues			**$602,565,000**	**$553,046,000**	**$613,589,000**
Local Fund Expenditures and Transfers					
1	**Operating Expenditures**		**$219,801,000**	**$241,039,000**	**$265,614,000**
	A	Government Direction and Support	$30,925,000	$32,642,000	$36,214,000
	B	Economic Development and Regulation	$8,141,000	$8,980,000	$8,945,000
	C	Public Safety and Justice	$62,273,000	$54,949,000	$65,389,000
	D	Public Education System	$6,602,000	$6,156,000	$6,515,000
	E	Human Support Services	$39,436,000	$40,831,000	$44,108,000
	F	Operations and Infrastructure	$26,443,000	$42,462,000	$49,458,000
	G	Financing and Other	$1,921,000	$4,044,000	$2,449,000
	H	Bond Issuance Costs	$318,000	$392,000	$33,000
	I	Debt Service	$43,743,000	$50,584,000	$52,502,000
1	**Other Expenditures**		**$6,955,000**	**$5,330,000**	**$7,001,000**
	A	Paygo Capital	$4,126,000	$1,659,000	$2,261,000
	B	Transfer to Trust Fund for Post-Employment Benefits	$2,808,000	$3,025,000	$3,594,000
	C	Repay Reserves	N/A	N/A	N/A
	D	Transfer to Enterprise and Other Funds	$21,000	$646,000	$1,147,000
Total Local Fund Expenditures and Transfers			**$226,756,000**	**$246,369,000**	**$272,614,000**

Note: Some numbers may not add up perfectly, in part due to rounding in the D.C. Budget and Financial Plan.



		As Percentage of District of Columbia				
FY 2022	FY 2023	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
$77,000	$154,000	N/A	3.7%	3.8%	3.3%	3.2%
N/A	$82,000	N/A	N/A	3.8%	3.3%	3.2%
N/A	N/A	N/A	N/A	N/A	N/A	N/A
$18,925,000	**$18,813,000**	**4.1%**	**4.3%**	**4.6%**	**4.0%**	**4.0%**
$7,737,000	$8,173,000	6.1%	6.4%	6.7%	5.8%	5.7%
$5,001,000	$4,826,000	3.5%	3.7%	3.8%	3.3%	3.2%
$2,338,000	$2,184,000	3.5%	3.7%	3.8%	3.3%	3.2%
$3,845,000	$3,626,000	3.5%	3.7%	3.8%	3.3%	3.2%
$4,000	**$4,000**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
$619,446,000	**$634,009,000**	**7.3%**	**6.7%**	**7.0%**	**6.3%**	**6.2%**
($49,575,000)	($53,141,000)	7.7%	5.6%	5.9%	6.8%	7.1%
$569,872,000	**$580,868,000**	**7.2%**	**6.8%**	**7.0%**	**6.3%**	**6.1%**
$269,177,000	**$273,778,000**	**2.8%**	**2.9%**	**3.1%**	**2.8%**	**2.6%**
$29,894,000	$34,076,000	3.7%	3.7%	3.8%	3.2%	3.4%
$21,790,000	$12,179,000	3.3%	3.2%	3.4%	3.7%	1.8%
$57,727,000	$58,209,000	4.9%	5.0%	5.2%	4.4%	4.2%
$7,876,000	$8,095,000	0.3%	0.2%	0.2%	0.3%	0.3%
$43,042,000	$47,123,000	2.1%	2.2%	2.4%	2.0%	2.0%
$47,305,000	$50,070,000	5.9%	6.2%	6.5%	5.6%	5.6%
$12,108,000	$6,210,000	6.1%	6.4%	6.7%	5.8%	5.7%
$578,000	$625,000	6.1%	6.4%	6.7%	5.8%	5.7%
$48,859,000	$57,191,000	6.1%	6.4%	6.7%	5.8%	5.7%
$9,188,000	**$14,083,000**	**6.1%**	**6.4%**	**6.7%**	**5.8%**	**5.7%**
$3,723,000	$11,541,000	6.1%	6.4%	6.7%	5.8%	5.7%
$3,061,000	$2,359,000	6.1%	6.4%	6.7%	5.8%	5.7%
$552,000	N/A	N/A	N/A	N/A	5.8%	N/A
$1,852,000	$182,000	6.1%	6.4%	6.7%	5.8%	5.7%
$278,365,000	**$287,861,000**	**2.9%**	**3.0%**	**3.2%**	**2.8%**	**2.7%**



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