

Update on DC's economy and revenue outlook

Presentation to the District of Columbia Tax Revision Commission



District of Columbia

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DC Office of Revenue Analysis

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(Note: this is a follow up from a November 2012 presentation to the Commission)

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The economy one year later: slower job growth, more people

•Job growth in DC has slowed, but private sector gains have managed to keep ahead of the decline in federal employment. DC is no longer doing better than everybody else.

- With the sequester now in effect, more federal jobs are being lost. (August was 6,100--2.9%--less than a year earlier, though still 8,000 more than when the 2007 recession began.)
- Private sector employment is growing at about the same rate as a year ago. August jobs for the year were up 7,500 (1.5%), with the biggest gains in professional services and food services.

•Population and resident employment continue to increase, but unemployment and poverty rates remain high.

- DC's population increased by 52,000 (9.0%) from 2008 to 2012, reaching 632,323 in July 2012. Since 2008, DC has added about 1,000 residents per month, mostly young singles.
- From August 2011 to August 2013 resident employment rose by 25,000 but unemployment fell by only 5,000 (to a an 8.8% rate). Resident employment growth has slowed recently.
- The poverty rate in DC in 2012 was 18.4%--down slightly from last year but higher than 2009.

•The commuter bite out of DC's Personal Income continued to get smaller, but Personal Income growth also slowed to 2.1% over the past year, less than the US average.

•DC's real estate markets, especially residential, continue to show strength.

- Office market 1 yr. later: occupied space up, rents down; 9.2% vacancy rate below metro's 13.4%.
- Single family and condo sales up by double digits from last year, as are single family prices.
- More than 6,000 new apt. units and 2.9 million new sq. ft. of office space expected by 2015.

•Slow but steady US recovery, low interest rates, and rapid stock market gains (44% over the past 2 years) have been of benefit to DC's tax base.



Revenues one year later: more, but growth is slowing

After a strong rebound from the recession's impact, revenue growth is slowing.

- Revenues surpassed their previous 2008 peak in 2011, and grew an estimated additional 12.5% (\$797 million) by FY 2013 as revenues were stronger than anticipated.
- Currently estimated FY 2013 revenue growth of \$245M (3.6%) is less than half of that for the previous two years (but also more than 3 times the 1% rate of inflation).

Revenue gains over the past 3 years were led by income and deed taxes.

- FY 2013 estimated revenues are \$1,221 million (21.0%) above the FY 2010 low point.
- Deed taxes, capital gains, and business income taxes accounted for about 39% (\$474 million) of this increase, recovering about three-quarters of their FY 2007 to FY 2010 \$620 million decline.
- Income tax withholding accounted for \$341 million (28%) of the increase.
- Real property taxes, which had grown by \$373 million from FY 2007 to FY 2010, added only \$68 million in the FY 2010 to FY 2013 period, just 6% of the revenue increase.
- Revenue grew faster than Personal Income growth (16.7%) over the recovery period, ending in FY 2013 at 14.5% of Personal Income (about equal to the 10 year average of 14.8%).
- Some of the revenue growth over the period is attributable to tax law changes.

All tax and non-tax DC General Fund revenues (before earmarks): FY 2006 to FY 2013 (estimated)

	2006	2007	2008	2009	2010	2011	2012	2013 (est)
Revenue (\$'000)	5,238,583	5,925,814	6,202,114	5,896,235	5,815,755	6,239,655	6,791,532	7,036,390
change (\$'000)	314,440	687,231	276,300	-305,879	-80,480	423,900	551,877	244,858
% ch	6.4	13.1	4.7	-4.9	-1.4	7.3	8.8	3.6

Note: FY 2006 through FY 2012 are from the CAFR. FY 2013 is from the September 2013 revenue letter and is subject to change. Revenue total includes O-type funds.



September revenue outlook: modest growth in an uncertain economy

- **Economic uncertainty and federal cutbacks are major factors contributing to expectations for slower growth in employment and income.**
 - Despite the sequester, the estimate assumes positive job growth and continued population growth. Personal Income gains of 10.8 % between FY 2013 to FY 2016 are less than the 16.7% growth from FY 2010 to FY 2013.

- **Expected revenue growth is about \$200 million per year from FY 2013 to FY 2016.**
 - From FY 2013 to FY 2016, revenues are expected to grow by \$592 million, an 8.4% increase.
 - Revenue grows more slowly than Personal Income.
 - Real property once again takes its place as the largest source of growth, increasing by \$222 million (11.5%) and accounting for 38% of the increase in revenue.
 - Individual income and sales combined are expected to grow by \$230 million and account for 39% of the revenue increase.
 - Along with the real property tax, business income taxes keep pace with Personal Income growth.

All tax and non-tax General Fund revenue (before earmarks): FY 2012 to FY 2016 (est.)					
	2012	2013 (est)	2014 (est)	2015 (est)	2016 (est)
Revenue (\$'000)	6,791,532	7,036,390	7,229,217	7,452,519	7,628,241
change (\$'000)	551,877	244,858	192,827	223,302	175,722
% ch	8.8	3.6	2.7	3.1	2.4
<i>Source: September 2013 revenue letter. Revenues include O-type funds</i>					

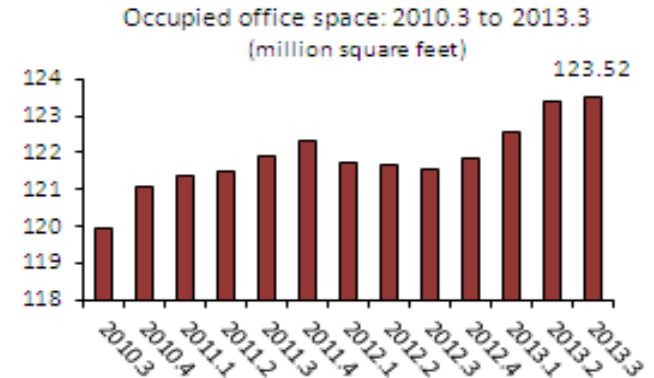
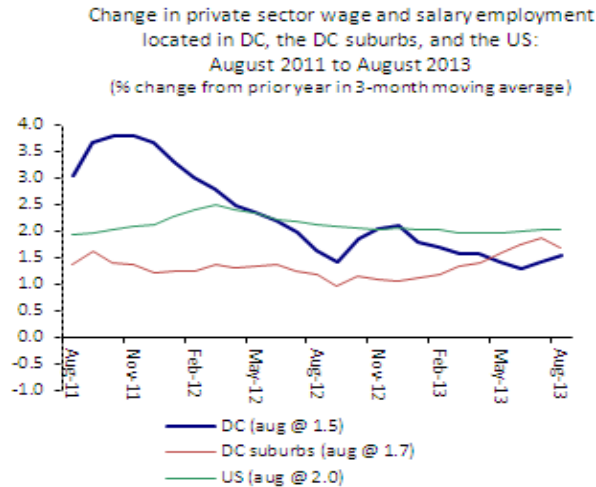


The challenge: taxes and spending in a changing economy

- **Federal slowdown.** With sequester in full implementation, restrained federal spending seems likely to continue. How severe will the restraint be? When and how much will this eventually affect the private sector in areas such as contract spending and leased office space?
- **Private sector diversification.** With government and legal services lagging, finding new drivers for achieving gains in high wage employment requires success in competing in the private sector. Although their impact is uncertain, how DC taxes and spends money may contribute to success.
- **Population.** In the short run population growth seems set to continue and boost income, but how much does it depend on future job growth, the quality of public services, and affordable housing? Again, this is an area where DC taxes and spending policies may make a difference.
- **Real estate.** More than most taxes, real property taxes have tended to grow faster than Personal Income. Limited land area in a growing economy can certainly sustain increases in value, but assessed values can be affected if interest rates rise, offices have a hard time renting space at profitable rates, population growth slows, or capital markets change.
- **Federal grants.** Federal cutbacks may dampen or reduce grants DC receives that make up about 30% of all revenues. This would put more pressure on local source revenues to pay all the bills.
- **The US economy and other outside influences.** The sub-par US economic recovery affects DC and may continue for some time, particularly if fiscal matters are not resolved. The pace of stock market gains for the past 2 years is probably not sustainable; slower growth in the capital gains part of the Individual income tax is likely. DC remains vulnerable to shocks from national security events or other developments such as disruptions in world energy or financial markets.



Employment in DC and commercial real estate

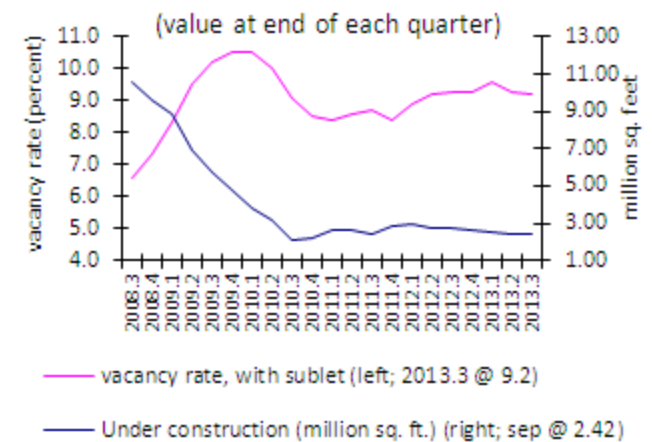


Wage and salary employment in DC: August 2011 and August 2013

Sector	Level in:		Change:	
	Aug 2011	Aug 2013	amount	%
Federal government	214,633	203,433	-11,200	-5.2
Local government	37,300	36,733	-567	-1.5
Professional services, except legal	74,100	80,067	5,967	8.1
Legal services	30,533	29,900	-633	-2.1
Business services	47,567	46,967	-600	-1.3
Information and finance	46,000	45,700	-300	-0.7
Education	45,833	47,567	1,733	3.8
Health	63,000	64,300	1,300	2.1
Organizations	60,100	61,433	1,333	2.2
Hospitality	63,033	68,900	5,867	9.3
Wholesale and retail	22,833	22,967	133	0.6
All other private	25,667	26,233	567	2.2
Total	730,600	734,200	3,600	0.5

Source: BLS. Data is 3-month moving average as of date shown.

Commercial office space vacancy rate (with sublet) and space under construction: 2008.3 to 2013.3



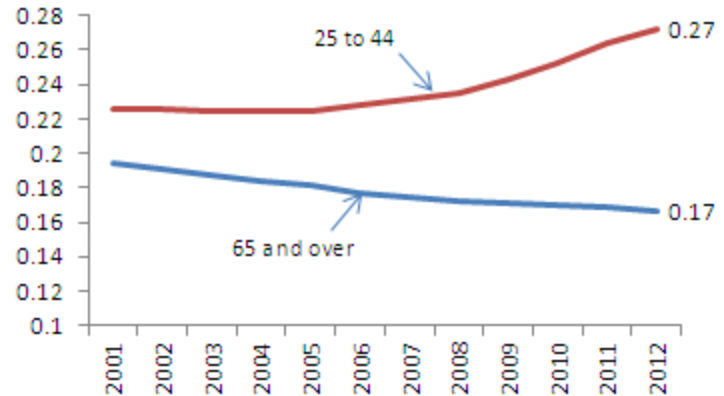
Demographics and resident employment

DC Population: 2000 to 2012

year (July)	level	ch from prior year	
		amount	%
2000	572,046	1,563	0.3
2001	574,504	2,458	0.4
2002	573,158	-1,346	-0.2
2003	568,502	-4,656	-0.8
2004	567,754	-748	-0.1
2005	567,136	-618	-0.1
2006	570,681	3,545	0.6
2007	574,404	3,723	0.7
2008	580,236	5,832	1.0
2009	592,228	11,992	2.1
2010	604,989	12,761	2.2
2011	619,020	14,031	2.3
2012	632,323	13,303	2.1

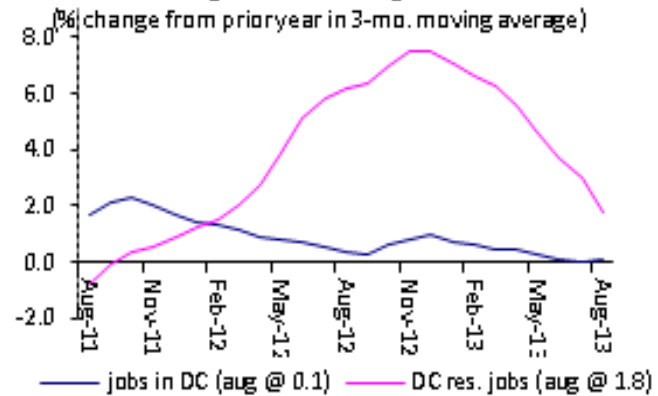
Source: US Census Bureau

DC % of US population (1) 25 to 44, and (2) 65 and over: 2001 to 2012

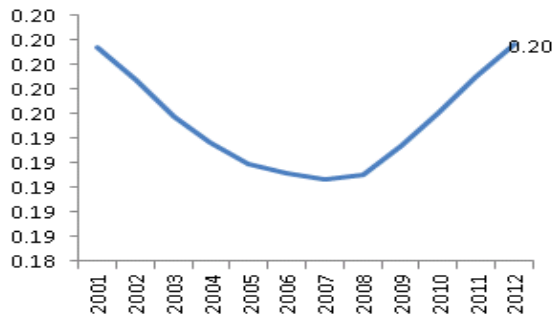


Jobs located in DC and DC resident employment:

August 2011 to August 2013



DC Population as % of US total: 2001 to 2012



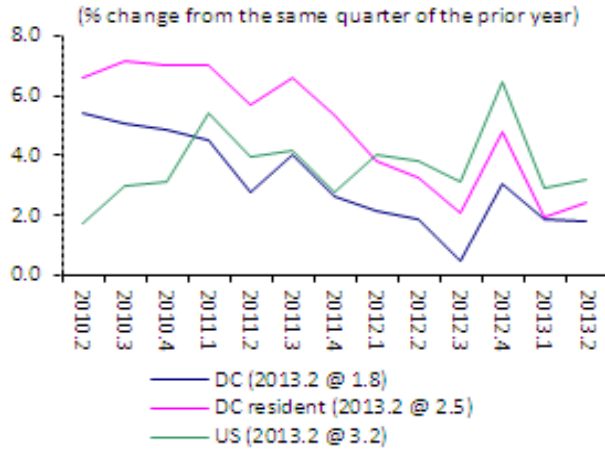
Note: US and age cohort data from Global Insight

DC Office of Revenue Analysis OCFO

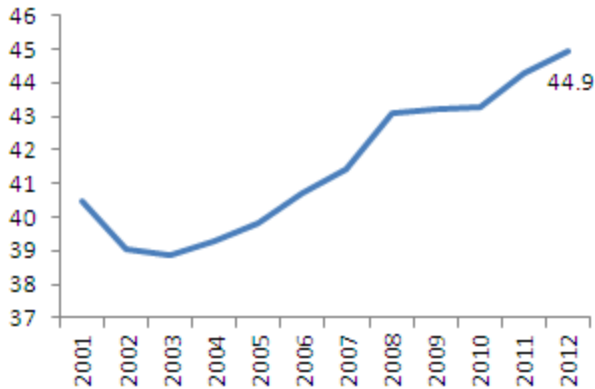
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Income

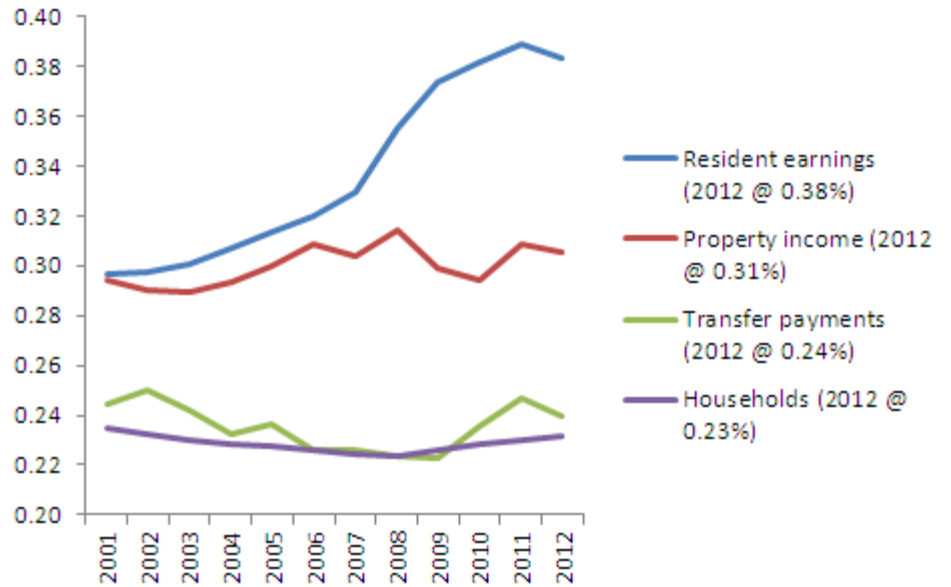
Wages earned in DC, wages earned by DC residents, and wages earned in the US: 2010.2 to 2013.2



Earnings of DC residents as % of all income earned in DC: 2001 to 2012



DC % of US resident earnings, property income, transfer payments, and households: 2001 to 2012

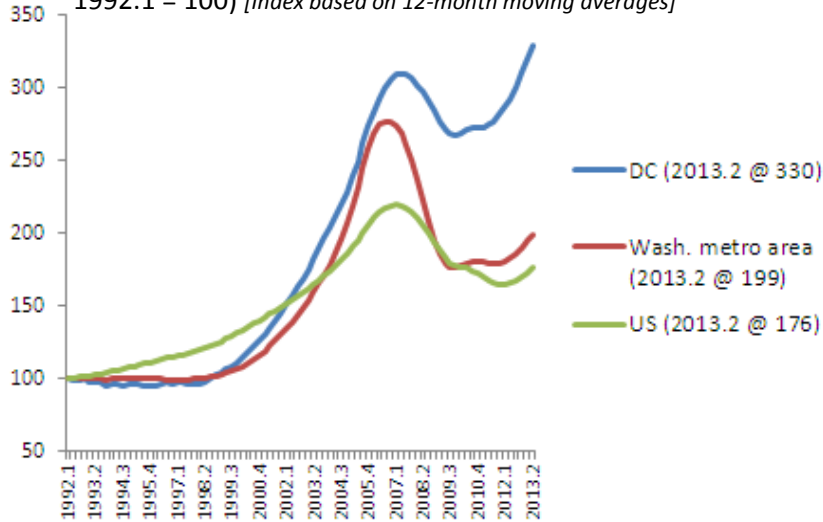


Source: BEA Personal Income and Global Insight (households)

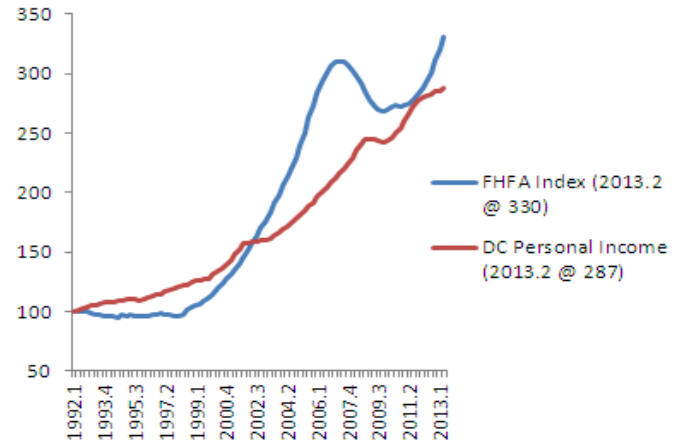


Housing and real property sales

FHFA expanded-data same property housing price index for DC, the metro area, and the US: 1992.1 to 2013.2 (index: 1992.1 = 100) [Index based on 12-month moving averages]

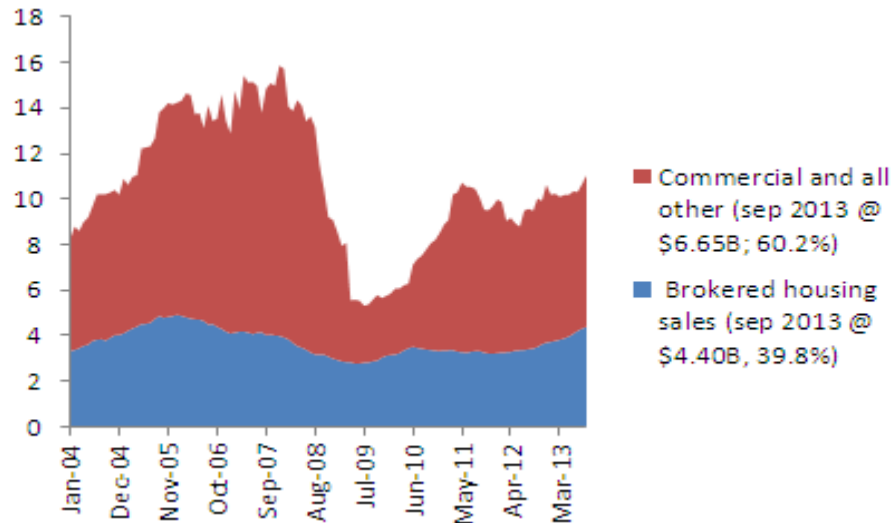


FHFA expanded-data same property housing price index for DC and DC Personal Income: 1992.1 to 2013.2 (Index: 1992.1 = 100) [based on 12-month moving averages]



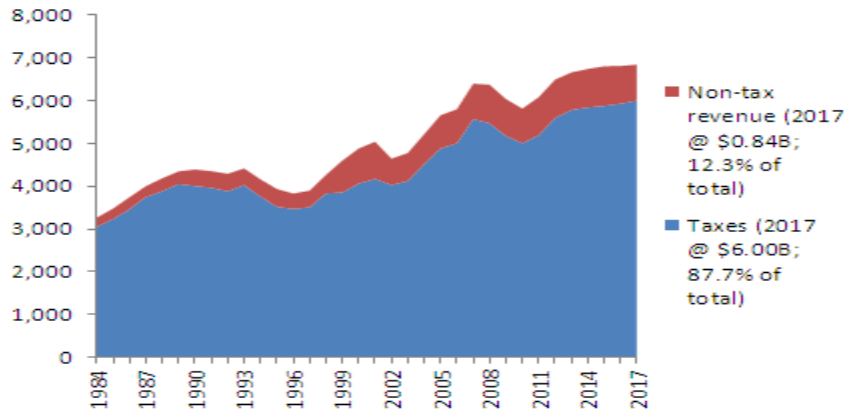
Value of all property transfers subject to deed transfer or economic interest tax, divided between brokered home sales and all other: January 2004 to September 2013 (12-month moving total, \$ billion)

Source: DC Recorder of Deeds and MRIS. The value of settled housing contracts is subtracted from total transfers to obtain the value of commercial and all other sales. Calculated from 12-month moving totals.

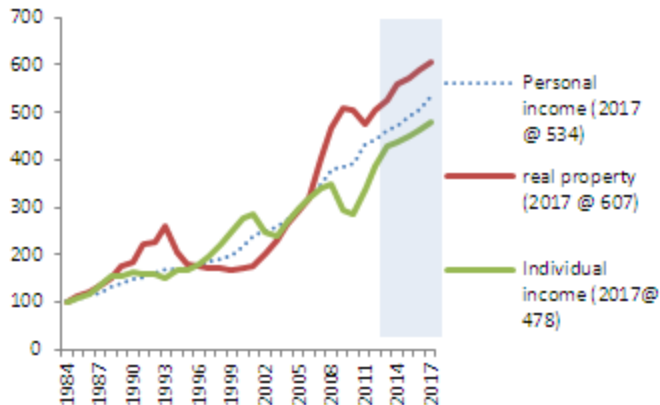


Revenue

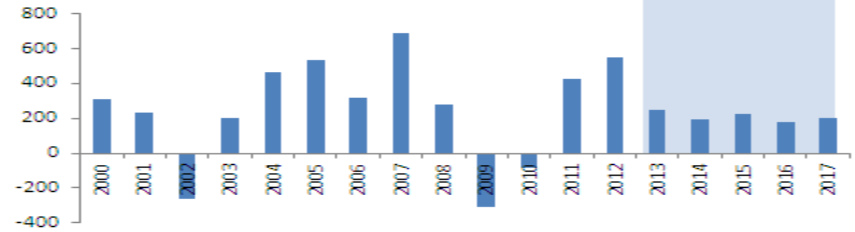
Inflation-adjusted DC tax and non-tax revenues (before earmarks): FY 1984 to FY 2017 (est.) (in millions of 2010 dollars)



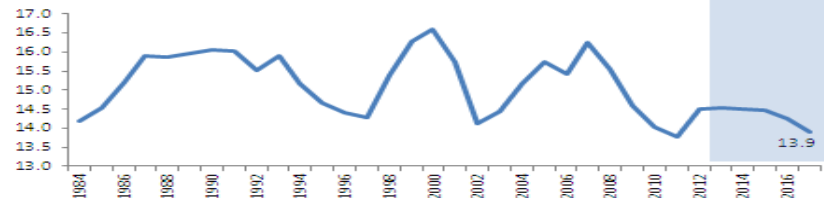
Real property tax, Individual income tax, and DC Personal Income: FY 1984 to FY 2017 (est.) [Index numbers: 1984 = 100]



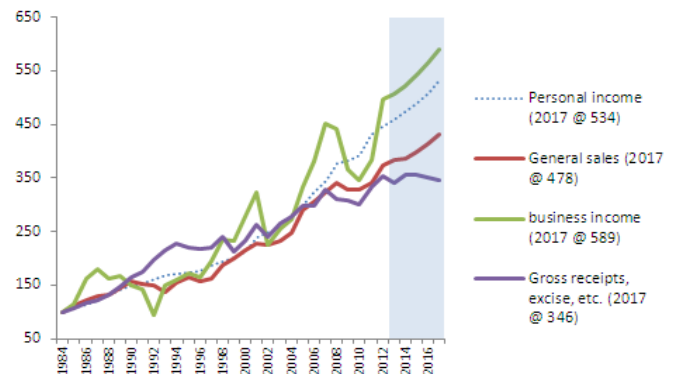
Change from prior years in total DC revenue (before earmarks): 2000 to 2017 (est.) (In millions of nominal dollars)



Revenue (before earmarks) as % of DC Personal Income: 1984 to 2017 (est.)



General sales, business income, gross receipts, excise, and other business taxes, and DC Personal Income: 1984 to 2017 (est.) [Index numbers: 1984 = 100]



Revenue (detail)

DC tax and non-tax revenues (before earmarks): FY 2004 to FY 2016 (estimated)

Revenue source	Level (\$ million):				Amount of change (\$M):				% change:			
	2007	2010	2013	2016	04 to 07	07 to 10	10 to 13	13 to 16	04 to 07	07 to 10	10 to 13	13 to 16
Real property	1,449	1,821	1,890	2,112	501	373	68	222	52.9	25.7	3.7	11.8
All deed taxes	444	226	347	380	91	-218	121	34	25.7	-49.2	53.6	9.7
Individual income	1,314	1,110	1,654	1,792	272	-203	543	138	26.0	-15.5	48.9	8.3
<i>withholding</i>	975	1,074	1,416	1,554	99	99	342	138	11.3	10.2	31.8	9.8
<i>capital gains and other</i>	339	37	238	238	172	-302	201	0	103.4	-89.2	549.9	0.0
General sales	960	977	1,138	1,230	227	17	161	92	30.9	1.7	16.5	8.1
Corporate income	256	207	312	345	87	-48	105	33	51.8	-18.9	50.5	10.7
UB income	167	116	164	185	79	-51	47	21	89.1	-30.3	40.7	12.8
Excise and all other bus.	512	508	565	558	66	-4	57	-7	14.9	-0.7	11.3	-1.3
Estate tax	54	39	38	38	28	-15	-1	0	105.0	-27.5	-3.4	0.0
Total tax	5,155	5,005	6,107	6,640	1,350	-150	1,102	533	35.5	-2.9	22.0	8.7
Non-tax revenue	771	811	929	988	184	40	119	59	31.4	5.1	14.6	6.4
Total revenue	5,926	5,816	7,036	7,628	1,534	-110	1,221	592	34.9	-1.9	21.0	8.4
Summary 1												
Real estate related	1,893	2,047	2,236	2,492	592	154	189	256	45.5	8.2	9.2	11.4
Individual income	1,314	1,110	1,654	1,792	272	-203	543	138	26.0	-15.5	48.9	8.3
Sales and other business	1,894	1,808	2,179	2,318	459	-86	371	139	32.0	-4.5	20.5	6.4
Estate and non-tax	825	850	967	1,026	212	25	117	59	34.5	3.0	13.8	6.1
Total	5,926	5,816	7,036	7,628	1,534	-110	1,221	592	34.9	-1.9	21.0	8.4
Summary 2												
W/h and sales	1,935	2,051	2,554	2,784	326	116	503	230	20.3	6.0	24.5	9.0
Real property	1,449	1,821	1,890	2,112	501	373	68	222	52.9	25.7	3.7	11.8
Deed, non/wh, bus inc	1,206	586	1,060	1,148	429	-620	474	88	55.3	-51.4	81.0	8.3
All other	1,337	1,358	1,532	1,584	278	21	175	52	26.3	1.6	12.9	3.4
Total	5,926	5,816	7,036	7,628	1,534	-110	1,221	592	34.9	-1.9	21.0	8.4
Personal income	36,476	41,500	48,421	53,514	7,523	5,023	6,921	5,093	26.0	13.8	16.7	10.5

Source: OCFO. FY 2013 and FY 2016 are from the September 2013 revenue letter.

