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DC revenues adjusted for inflation grew more slowly after the Great Recession

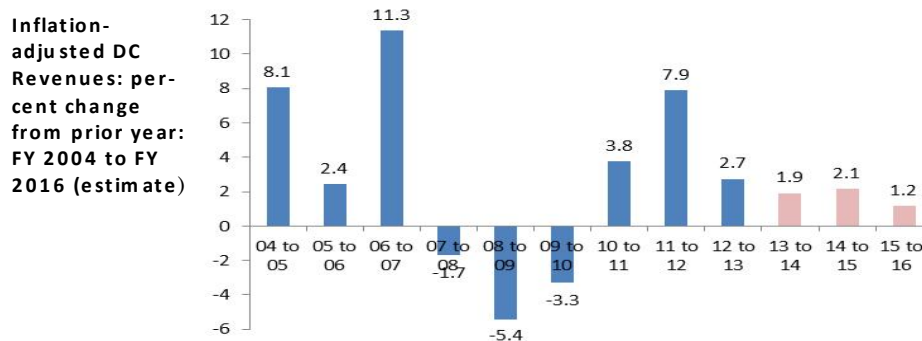
The February estimate anticipates continued growth of real revenues at a steady, slower pace

The release of the FY 2013 CAFR and the February revenue estimate provides an opportunity to look both backward and forward at DC revenue trends. This note looks at actual revenues from FY 2004 to FY 2013, and at those forecast through FY 2016, with all amounts adjusted for inflation.

Expressed in constant dollars (\$2010), FY 2013 DC revenues (before earmarks) were \$6.10 billion. From 2004 to 2013, real revenues increased by \$1.24 billion (25.6%). A number of things happened during this nine year period, including the Great Recession (officially December 2007 to June 2009), growth and then cutbacks in the federal sector, DC population growth, and tax policy changes. Not surprisingly, changes in inflation-adjusted revenue from year to year varied considerably: from a high of 11.3% (in FY 2007, the last year before the recession), to a low of -5.4% (in 2009, at the end of the recession).

As can be seen in the chart below, however, the period from FY 2004 to FY 2013 can be divided into three sub-periods:

- (1) *Before the recession (FY 2004 to FY 2007)*. The period of fastest growth, revenues grew by \$1.03 billion (21.2%). Real property increased by the largest amount (see tables on p. 2), but all other major revenue sources grew as well.
- (2) *The recession's direct impact (FY 2007 to FY 2010)*. Revenues fell by \$596 million (-10.1%), with capital gains, deed, and business income taxes contributing the most to the decline. Real property continued to grow.
- (3) *Post-recession recovery (FY 2010 to FY 2013)*. Revenues rebounded by \$812 million (15.4%). *(continued on p. 2)*



This briefing document was prepared by Stephen Swaim, DC Office of Revenue Analysis.

This brief first appeared in the February 2014 *DC Economic and Revenue Trends*. District of Columbia briefing documents are prepared by the Office of Revenue Analysis, which is part of the Office of the Chief Financial Officer of the District of Columbia government. The purpose of these documents is to make information available that is not of a policy nature. See also *District of Columbia Economic and Revenue Trends and Economic Indicators* issued monthly by the D.C. Office of the Chief Financial Officer (www.cfo.dc.gov/Economy and Revenue).

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Inflation-adjusted DC revenues, continued from p.1

Over half of the increase was from the Individual Income tax (both withholding and other), but all revenue sources gained except for real property (which experienced delayed impact from the recession due to the time delays in the assessment cycle).

Looking ahead to FY 2013 to FY 2016, the February forecast anticipates a \$334 (5.5%) million increase in inflation-adjusted revenues. The increase is only 41% of the amount of increase in the prior 3-year period, and less than a third of that in the three years before the recession. Real property accounts for 58% of the increase over these three years.

Since DC's economy is expected to continue to grow, one might wonder why inflation-adjusted revenue growth through FY 2016 could be significantly less than in the preceding three years. Two reasons. First, although the economy is always uncertain, some indicators that affect DC taxes seem likely to grow more slowly, such as jobs, population, Personal Income, and the stock market. Second, tax policy affects the outlook. The FY 2010 to FY 2013 period got revenue boosts from temporary higher tax rates—income (8.95% top rate) and sales tax (6% general rate)—which are reversed by FY 2016. Combined reporting, single weighted sales, and higher minimum taxes for DC business income taxes started in FY 2012, and federal deficit reduction legislation accelerated capital gains taxes into FY 2013 (to avoid 2014's higher federal tax rates). In addition, caps on real property tax increases appear to affect FY 2016 revenues.

Total nominal and inflation-adjusted DC tax and non-tax revenues (before earmarks): FY 2004 to FY 2016 (est) (selected years)

	Level in \$ million					Amt. of change in \$ million (\$2010)				Percent change			
	2004	2007	2010	2013	2016 est	04 to 07	07 to 10	10 to 13	13 to 16	04 to 07	07 to 10	10 to 13	13 to 16
Nominal	4,093	5,452	5,290	6,468	7,261	1,360	-162	1,178	793	33.2	-3.0	22.3	12.3
Inflation-adjusted (\$ 2010)	4,858	5,886	5,290	6,103	6,437	1,028	-596	812	334	21.2	-10.1	15.4	5.5

Source: OCFO/DRA. Note: Total revenues excludes the miscellaneous non-tax category and also O-type revenues. Estimate is the February 26, 2014 estimate.

**Inflation-adjusted change in major revenue sources by period:
FY 2004 to FY 2016 est (\$ 2010)**

Revenue source	FY 2004 to FY 2007	FY 2007 to FY 2010	FY 2010 to FY 2013	FY 2013 to FY 2016 est
Real property-related taxes				
Real property tax	439	258	-15	195
Deed taxes	60	-254	121	-47
Individual Income tax				
Withholding	13	21	238	31
Other (primarily capital gains)	168	-329	200	56
Sales and business income				
General sales	166	-60	97	63
Business income	151	-132	104	23
All other tax and non-tax	30	-100	68	14
Total revenue	1,028	-596	812	334

Source: DRA. See detailed table.

Selected economic indicators by period: FY 2004 to FY 2016 (est)

Indicator	FY 2004 to FY 2007	FY 2007 to FY 2010	FY 2010 to FY 2013	FY 2013 to FY 2016 est
Change in DC population	6,098	29,653	39,807	30,740
Change in Jobs located in DC:				
All jobs	20,217	17,608	24,567	19,212
Federal government	-825	17,208	-3,842	-10,984
All private sector	19,792	4,648	29,694	29,202
DC Personal Income: % ch, inflation adjusted	14.6	5.4	9.4	6.9
S and P 500 stock index: % ch, inflation adjusted	16.9	-25.4	38.6	1.6
DC single-family home sales: % ch, inflation adjusted	27.3	-24.2	24.9	13.4

Source: BLS (employment), BEA (Personal Income), Yahoo finance (S and P), MRS Information Systems (housing prices), and DRA (February 2014 revenue estimate)

Inflation-adjusted DC major tax and non-tax revenues (before earmarks): FY 2004 to FY 2016 (est) (selected years)

category	Level in \$ million (\$2010)					Percent change:			
	2004	2007	2010	2013	2016 est	04 to 07	07 to 10	10 to 13	13 to 16
Real property tax	1,125	1,564	1,821	1,807	2,001	39.0	16.5	-0.8	10.8
Deed taxes	419	479	226	347	300	14.4	-52.9	53.6	-13.5
Individual income tax	1,237	1,418	1,110	1,548	1,634	14.7	-21.7	39.4	5.6
Withholding	1,039	1,052	1,074	1,312	1,343	1.3	2.0	22.2	2.3
Other	198	366	37	236	292	85.0	-90.0	545.5	23.5
General sales	870	1,036	977	1,074	1,137	19.1	-5.8	9.9	5.9
Business income	305	456	324	428	451	49.7	-29.0	32.1	5.4
All other tax and non-tax	902	932	832	900	914	3.4	-10.7	8.1	1.5
Total	4,858	5,886	5,290	6,103	6,437	21.2	-10.1	15.4	5.5

Source: OCFO/DRA. Note: Revenues excludes miscellaneous non-tax and O-type revenues. Estimate is the February 26, 2014 estimate.