

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Jeffrey S. DeWitt
Chief Financial Officer

August 5, 2020

The Honorable Muriel Bowser
Mayor of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 306
Washington, DC 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Re: FY 2020 and FY 2021 Revenue Outlook Update

Dear Mayor Bowser and Chairman Mendelson:

On April 24, 2020, the Office of the Chief Financial Officer (OCFO) certified the revenue estimate for the FY 2021 – 2024 District of Columbia Budget and Financial Plan. That forecast revised the FY 2020 local revenue downward by \$722 million (- 8.5%) and the FY 2021 revenue by \$773.6 million (- 8.9%) from the February 2020 estimate reflecting the unprecedented shutdown of the District and national economies to combat the COVID-19 virus. Both the Mayor's Proposed and the Council's Approved budgets were certified within the approved spending limits of the April 24, 2020 revenue forecast.

At the time of the April forecast, there was considerable uncertainty about the severity of the pandemic, the level of federal assistance, the length of the shutdown, potential unemployment levels, reopening plans, and how businesses would respond to the shutdown. Given the uncertainty, we planned to reexamine revenues immediately after the FY 2021 budget preparation was completed to ensure that the financial plan remained balanced.

An unprecedented level of uncertainty on future revenues still exists due to the factors mentioned above. The level of continued federal assistance has yet to be determined, concerns exist that reopening plans may be delayed or rolled back, and businesses, particularly in the hospitality sector, continue to struggle.

FY 2020 Revenue Estimate Status

The FY 2020 forecast is generally on track. Business taxes and personal income taxes combined are slightly better than expected, largely due to stronger than expected withholding taxes from the additional \$600 weekly unemployment payments and the payroll protection program (PPP) afforded businesses. However, the non-withholding income taxes paid on July 15, previously due April 15, were below expected levels.

Sales taxes are slightly ahead of the April forecast with hotel and restaurant revenues, in the aggregate, consistent with the April estimate through July. Remote sales are performing better than expected. The August and September sales tax filings, however, remain uncertain given the national resurgence of the virus and its possible impact on business activity.

There is also considerable uncertainty related to real property tax payments and possible delinquency levels for commercial property taxes due in September. Deed recordation and transfer taxes are declining but by less than forecasted. The large number of refinancing due to significantly lower interest rates positively impacted the recordation taxes.

In the aggregate, with actual local revenues through July slightly ahead of the forecast, we see no reason to modify the FY 2020 revenue estimate at this time.

FY 2021 Revenue Outlook

The April 24 revenue estimate for FY 2021 was based on a U-Shaped recovery that would bottom out this summer and begin a slow recovery through the fall and into the middle of FY 2021, with full recovery to FY 2019 local revenue levels not occurring until FY 2022.

Reopening occurred slightly sooner than forecasted providing a positive impact. However, the forecast assumed moving to Phase III by the end of the calendar year which is now at risk. The forecast assumed the stock market would end the calendar year 15 percent below its March level, but the market has unexpectedly recovered most of its losses to date. However, much volatility remains in the market.

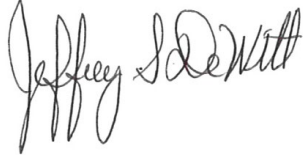
The level of federal assistance received through enhanced unemployment benefits, the PPP program, and other programs were unknown at the time of the last revenue update and have had positive effects on FY 2020 revenues, particularly withholding and business taxes. However, the continuation and level of these programs in FY 2021 for economic recovery are uncertain. Finally, the inability of some businesses to pay property taxes due in September related to income losses or bankruptcies may impact the forecast for FY 2021.

The downside risk of these uncertainties could be considerable. If the District were required to shut down again or revert back to Phase I reopening, federal assistance to the local economy were significantly reduced or eliminated, and/or unemployment levels do not begin a recovery, a lowering of the FY 2021 forecast by as much as \$500 million is possible. We believe this worst-case scenario is currently unlikely, and the April forecast provides the best estimate for FY 2021 to date. As a result, we will provide an updated revenue estimate on September 30, 2020 when all the above-mentioned factors are better defined. If a significant reduction is required, we will

work with the Mayor and Council on actions to ensure the budget can be modified early in FY 2021 to address any necessary changes.

If you have any questions regarding this matter, please contact me at (202) 727-2476.

Sincerely,



Jeffrey S. DeWitt

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