September 2024 Revenue Estimate

September 30, 2024

U.S. economy is growing but is weaker than at the start of the calendar year

National

- Q2 GDP grew 3% year-over-year, exceeding expectations. Consumer spending was the largest contributor, despite high interest rates.
- Inflation has abated, with the Personal Consumption Expenditures (PCE) price index rising by 2.5 percent in Q2, compared to a 3.4 percent increase in Q1.
- The labor market continued to soften, with the unemployment rate at 4.2% in August, a level not seen since October 2021.
- The Federal Reserve cut interest rates by 50 basis points, marking a turning point in the fight against the hottest inflation in nearly 40 years.
- The interest rate cut is expected to lower borrowing costs and keep the job market from slowing any further.
- Future growth in the S&P 500 index is revised lower with an expected slowing in the national economy.

DC economic and job growth is weaker than US, but population, income, and wages are growing

District

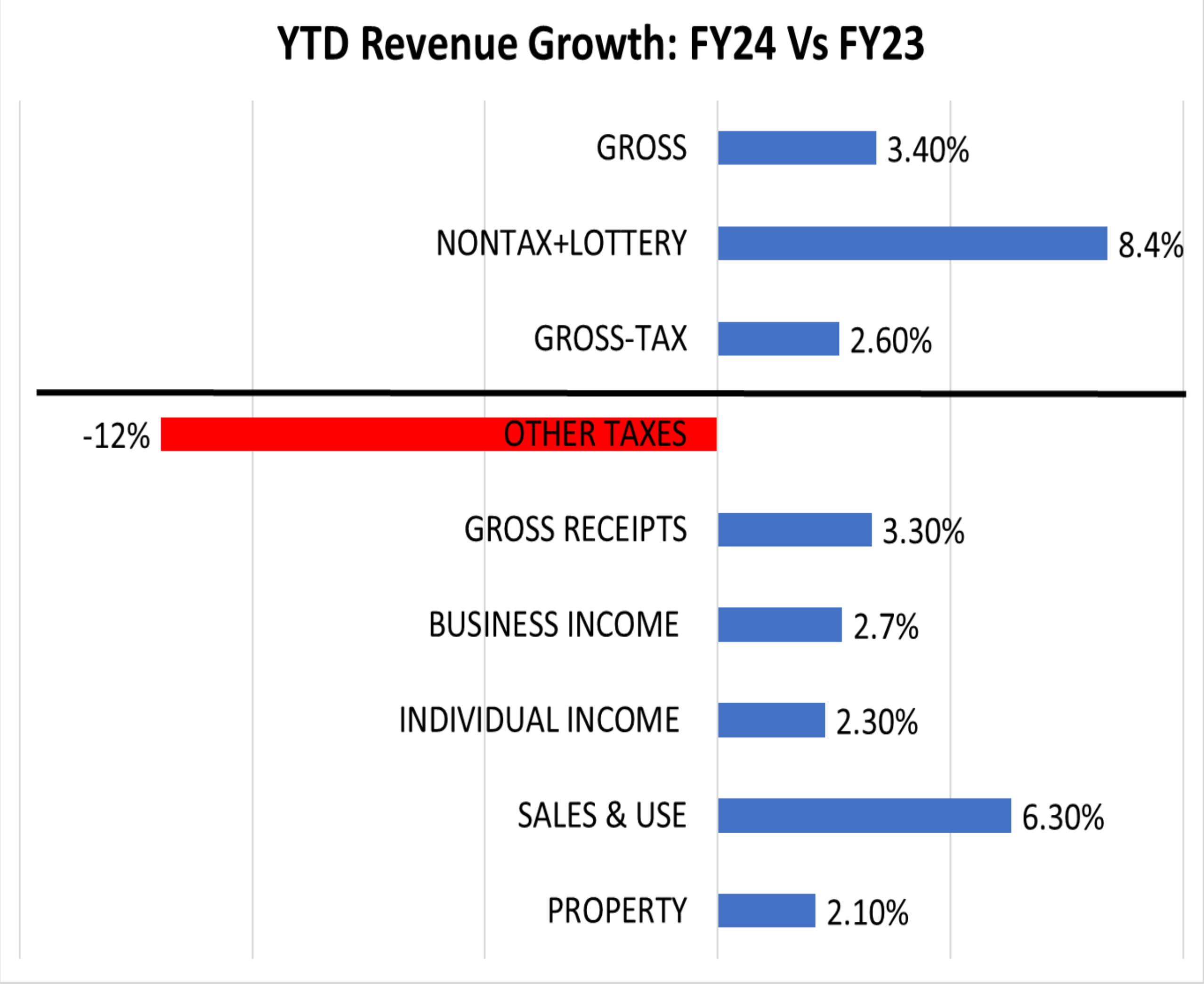
- DC economic and job growth is weaker than the US, but DC is stronger on income and wage growth.
- DC jobs have been slower to recover from the pandemic than the metro area and the US:
  - For Q2 2024, job growth in the District was approximately 0.4% compared to the same quarter of the previous year, 0.8% for the metro area, and 1.7% for the US
- Jobs in DC for July remain below pre-pandemic levels across nearly all sectors, except for professional and business services.
- Growth in the District's population, household size, resident employment, and civilian labor force are stronger relative to the last forecast. The forecast for personal consumption expenditure also improved for the near-term outlook.
- The District's unemployment rate has increased from its lowest point of 4 percent in November 2022, to an average of 5.1 percent for the first quarter of 2024, but remains historically low.
- No significant improvement on the commercial property market office occupancy levels.

Minimal changes to DC Economic Outlook

- ***<u>Key Assumptions:</u>***
  - ✓ The Federal Reserve will continue its path of rate-cutting through the remainder of 2024.
  - ✓ The federal government averts a shutdown in 2024.
  - ✓ TCJA will expire in accordance with current law.
  - ✓ The tax subsidies provided in the CHIPS Act and Inflation Reduction Act will be reaffirmed.
  - ✓ DC economy avoids a recession.
- Based on recent economic data, labor indicators, such as resident employment, the number of households, the civilian labor force, and population.
- Housing starts in DC for FY 2024 were revised downward due to a dramatic slowdown to an annual rate of 1,172 units in the first quarter of 2024, from over 7,319 units in the same period in 2023.

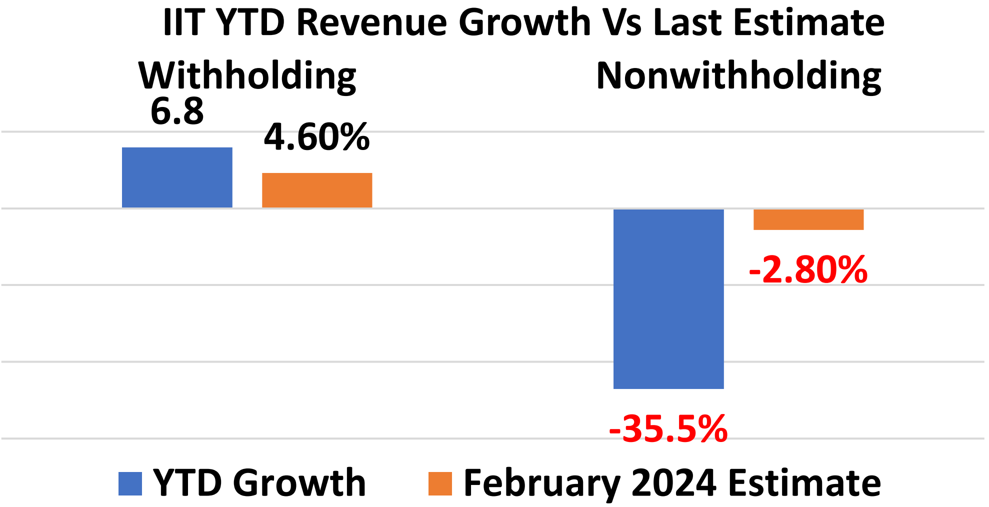
Year-to-date (YTD) revenue – FY 2024

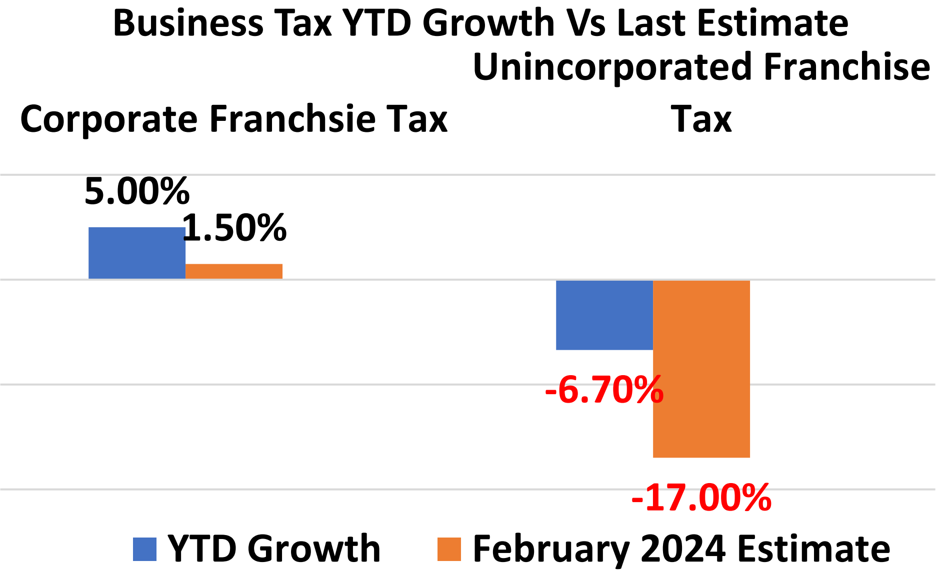
- General fund YTD revenue collections proved resilient growing 3.4%, despite a slowing labor market and an expected slowdown in consumer spending.
- Overall YTD gross tax revenue is up 2.6%, mainly due to stronger sales, income, and property tax collection.
- Nearly all the YTD growth in non-tax revenue comes from increased photo traffic fine collection, following the expanded automated camera units from FY2024 BSA.
- Decline in YTD other taxes is mainly the result of lower estate and deed taxes collected this year relative to last year.
- Growth in gross receipts is mainly a result of stronger public utility taxes and ballpark fee collection.



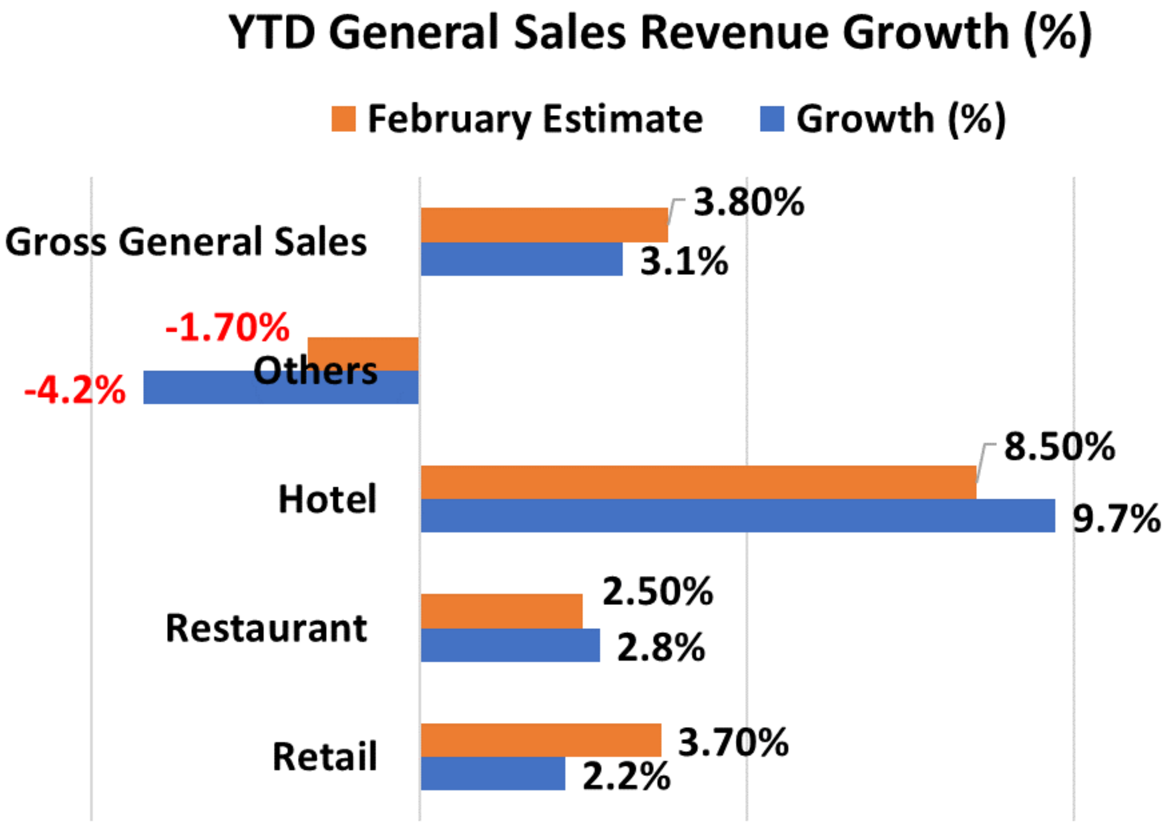
Year-to-date (YTD) revenue – FY 2024 (Continued)

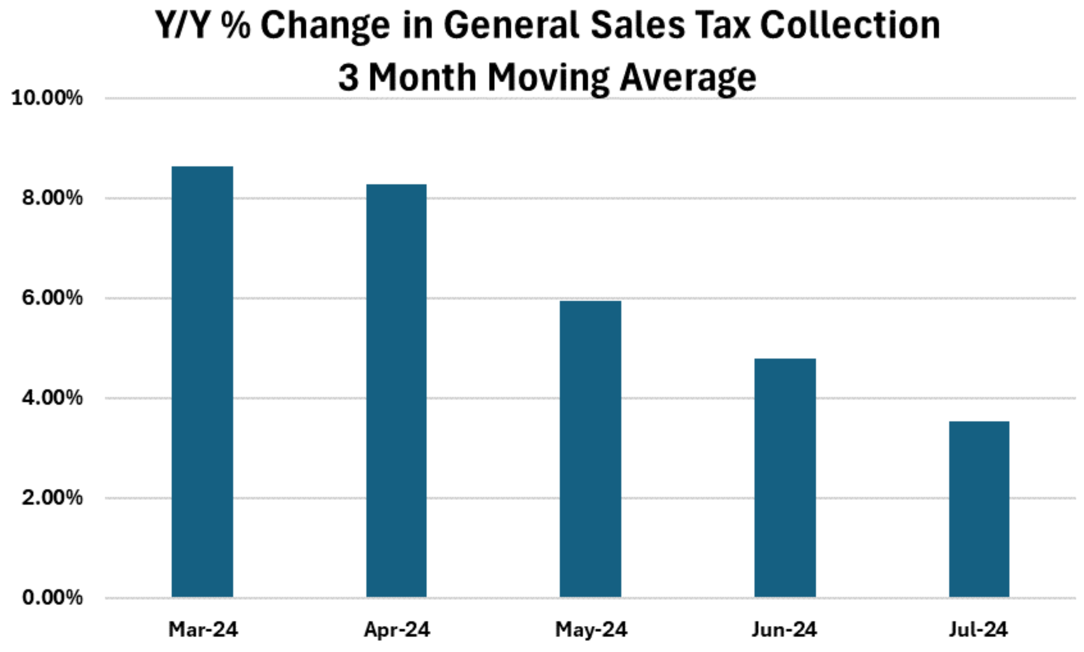
- Business income continues to exceed expectations, growing 2.7% relative to last year, this is mainly due to improvement in unincorporated business tax collection, which only declined 6.7% compared to a forecasted decline of 17%.
- The other income component of unincorporated business taxes appears to be the main driver of the growth, possibly due to a switch by high individual income taxpayers to this category.
- Individual income tax is growing 2.3% YTD, due mainly to growth in withholding, non-withholding tax collection continues to trend below expectation.
- Sales tax revenue continues to benefit from the recovery of the hospitality sector, mainly hotels, with occupancy rates approaching pre-pandemic levels.
- YTD growth in property tax is mainly the result of higher real property tax collection and lower refunds this year.





Year-to-date (YTD) revenue – FY 2024 Continued





- ✓ YTD general sales tax revenue is trending above forecast mainly benefiting from the continued recovery of the hospitality sector. However, growth within the retail sector has been slowing, averaging at about 3.5% during the last three months compared to 8% earlier this year.

FY 2024 - FY 2028 Financial Plan

September 2024 revenue estimate compared to previous estimate

	Actual	Estimated		Projected		
Local Source, General Fund Revenue Estimate ($M)	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
February 2024 Revenue Estimate		**9,977.0**	**10,254.0**	**10,455.2**	**10,677.7**	**10,914.9**
FY 2025 Budget Support Act Revenue-local		*12.9*	*403.4*	*455.8*	*525.1*	*708.6*
September revision to estimate		***72.7***	***44.4***	***44.6***	***52.4***	***18.5***
September 2024 Revenue Estimate	**9,974.5**	**10,062.5**	**10,701.8**	**10,955.6**	**11,255.2**	**11,642.0**
Revenue Change From Previous Year						
Amount		88.0	639.3	253.8	299.6	386.8
Year-Over-Year Percent Change		*0.9%*	*6.4%*	*2.4%*	*2.7%*	*3.4%*

Office of the Chief Financial Officer
Government of the District of Columbia

FY 2024 - FY 2028 Financial Plan: Economic revision

Components of September revision- ($000)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Property	$52,108	$43,348	$43,372	$36,271	$28,648
Sales & Excise Tax	$30,692	$13,437	$3,162	$1,203	($7,095)
Income (Both IIT and Business)	($22,287)	($48,001)	($47,501)	($30,105)	($84,943)
Gross receipts and Other Taxes	$19,196	$16,880	$13,755	$10,721	$16,001
Nontax and Lottery	$10,087	($11,955)	($16,487)	($15,751)	($15,817)
Total Revision: Gross	*$89,796*	*$13,709*	*($3,699)*	*$2,340*	*($63,206)*
Total Revision: Dedicated	*$17,125*	*($30,706)*	*($48,289)*	*($50,040)*	*($81,727)*
Total Revision: Local	**$72,671**	**$44,415**	**$44,590**	**$52,380**	**$18,520**

Risks to Outlook

✓**National:**

- Federal government shutdown and decisions over Federal Spending levels
- Policy uncertainty related to the US national elections
- Inflation resurfaces
- Geopolitical turmoil: escalation of the war in Ukraine and the Middle East
- Risk of U.S. recession

✓**District:**

- Remote work expands beyond current levels
- Federal employment declines
- Population recovery stalls
- Potential reduction in Metro service
- Public safety concerns

Questions?