Impact of the Recession on DC Economy and Tax Revenues

Presented by

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Overview

• The US recession, which began 31 months ago, is the worst since World War II. Although the broad consensus is that it ended last summer, the “recovery” has been dismal

• The recession has had a mixed impact on the District economy
  – The D.C. Metro area had one of the lowest unemployment rates in the country while the District had one of the highest
  – Withholding remained positive and with some growth while resident wages declined

• The recession’s impact on revenues did not happen right away but has become quite severe
  – FY 2009 tax collections were $383 million (7.2%) less than in FY 2008
  – The outlook is very uncertain, and we may not see significant recovery before FY 2011 or FY 2012
The US Recession

DC Labor Market

- Employment in DC was not impacted by the recession and is higher than when the recession began
  - DC employment up 1.6% since December 2007, the beginning of the recession
  - DC Resident employment down 3.5%

- Growth in employment due to federal government
  - Federal government up 9.6% since beginning of recession
  - Private employment down 1.1%

Source: BLS
## DC Labor Market (cont’d)

- Jobs in DC barely contracted (and not at all on an annual basis)
- The suburbs fared worse but still not as bad as US
- Private sector hit hardest in DC area

### Change in wage and salary employment by sector: May 2009 to May 2010

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of all DC jobs in May</th>
<th>Change from May 2009 number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal government</td>
<td>28.1</td>
<td>9,767</td>
<td>5.0</td>
</tr>
<tr>
<td>Private sector categories that grew over the year</td>
<td>24.9</td>
<td>6,300</td>
<td>3.6</td>
</tr>
<tr>
<td>Business services other than employment services</td>
<td>5,067</td>
<td>14.5</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>333</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>300</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Accomodations</td>
<td>200</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>Retail trade</td>
<td>400</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>Private sector categories that did not grow over the year</td>
<td>41.5</td>
<td>-7,667</td>
<td>-2.6</td>
</tr>
<tr>
<td>Legal services</td>
<td>-1,700</td>
<td>-4.9</td>
<td></td>
</tr>
<tr>
<td>Professional and technical services except legal</td>
<td>-400</td>
<td>-0.6</td>
<td></td>
</tr>
<tr>
<td>Employment services</td>
<td>-433</td>
<td>-4.0</td>
<td></td>
</tr>
<tr>
<td>Information</td>
<td>-733</td>
<td>-3.8</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>-967</td>
<td>-3.6</td>
<td></td>
</tr>
<tr>
<td>Organizations</td>
<td>-233</td>
<td>-0.4</td>
<td></td>
</tr>
<tr>
<td>Food service</td>
<td>-667</td>
<td>-1.8</td>
<td></td>
</tr>
<tr>
<td>Amusement and recreation</td>
<td>-133</td>
<td>-1.8</td>
<td></td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>-133</td>
<td>-2.9</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>-1,433</td>
<td>-11.8</td>
<td></td>
</tr>
<tr>
<td>Personal and miscellaneous services</td>
<td>-833</td>
<td>-12.0</td>
<td></td>
</tr>
<tr>
<td>Other private</td>
<td>0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>State and local government</td>
<td>5.6</td>
<td>-367</td>
<td>-0.9</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>8,033</td>
<td>1.1</td>
</tr>
</tbody>
</table>

DC Labor Market (cont’d)

Wage and salary employment in DC and the US: December 2007 to May 2010

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Dec. 2007</th>
<th>May 2010</th>
<th>change</th>
<th>% ch</th>
</tr>
</thead>
<tbody>
<tr>
<td>All wage and salary employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DC</td>
<td>699,500</td>
<td>710,400</td>
<td>10,900</td>
<td>1.6</td>
</tr>
<tr>
<td>US</td>
<td>137,951,000</td>
<td>130,595,000</td>
<td>-7,356,000</td>
<td>-5.3</td>
</tr>
<tr>
<td>Private sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DC</td>
<td>466,200</td>
<td>461,100</td>
<td>-5,100</td>
<td>-1.1</td>
</tr>
<tr>
<td>US</td>
<td>115,574,000</td>
<td>107,617,000</td>
<td>-7,957,000</td>
<td>-6.9</td>
</tr>
<tr>
<td>Public sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DC</td>
<td>233,300</td>
<td>249,300</td>
<td>16,000</td>
<td>6.9</td>
</tr>
<tr>
<td>US</td>
<td>22,377,000</td>
<td>22,978,000</td>
<td>601,000</td>
<td>2.7</td>
</tr>
</tbody>
</table>


DC Labor Market (cont’d)

- DC unemployment rate went from 12.0% in January to 10.4% in May. The US rate is 9.5%.
- Data from BLS going back to 1976 shows that DC has never reached 12.0% but came close in December 1982.
- DC historically above US rate and gap has narrowed in recent months.
DC Labor Market (cont’d)

• Similar to employment, recession did not hit DC wages as hard as US
• Amounts earned by persons working in DC is still growing, but earnings by DC residents fell.

Wages earned in DC, wages earned by DC residents, and wages earned in the US; 2006.4 to 2010.1
(% change from the same quarter of the prior year)

Source: BEA

Housing Market

Total value of sales of single family and condo units:
May 2007 to May 2010
(% change from prior year in 3-month and 12-month moving totals)

Source: MRIS; FHFA
Commercial Real Estate

- **Commercial real estate**: in the quarter ending in March, the commercial office vacancy rate leveled off at 10.5% (including sublet) but because of weak demand is expected to increase to 11.4% by March 2012. This is still well below the metropolitan area average of 13.2%

- Occupied office space has grown the last two quarters after six quarters of decline from 2007.4

![Graph showing commercial office space vacancy rate and space under construction]

Tourism

- Convention center activity never declined below the recession level
  - It has declined from a peak reached in April 2009

- Hotel room sale revenue has been strong recently
  - Inauguration clearly impacted the hotel industry

![Graph showing hotel room sale revenue and DC Convention Center transfer from hotel and restaurant sales tax collections]

Source: Delta Associates

Source: ORA; Smith Travel
DC Tax Collections

- The recession has taken a toll on DC tax collections.

DC tax collections for 12 months ending December 2007, September 2008, and May 2010
(dollar amounts in millions)

<table>
<thead>
<tr>
<th>Tax</th>
<th>Dec 2007</th>
<th>Sep 2008 (peak)</th>
<th>May 2010</th>
<th>Dec 07 to May 10</th>
<th>Sep 08 to May 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real property</td>
<td>1,462.4</td>
<td>1,684.8</td>
<td>1,824.1</td>
<td>24.7</td>
<td>8.3</td>
</tr>
<tr>
<td>General sales</td>
<td>968.2</td>
<td>1,011.6</td>
<td>931.8</td>
<td>-3.8</td>
<td>-7.9</td>
</tr>
<tr>
<td>Individual income</td>
<td>1,347.1</td>
<td>1,353.2</td>
<td>1,121.1</td>
<td>-16.8</td>
<td>-17.2</td>
</tr>
<tr>
<td>witholding</td>
<td>985.5</td>
<td>1,004.2</td>
<td>1,046.1</td>
<td>6.1</td>
<td>4.2</td>
</tr>
<tr>
<td>non-withholding</td>
<td>361.6</td>
<td>349.0</td>
<td>75.0</td>
<td>-79.3</td>
<td>-78.5</td>
</tr>
<tr>
<td>Corporate income</td>
<td>251.1</td>
<td>289.8</td>
<td>222.4</td>
<td>-11.4</td>
<td>-23.3</td>
</tr>
<tr>
<td>Unincorp. bus inc.</td>
<td>157.5</td>
<td>128.9</td>
<td>124.6</td>
<td>-20.9</td>
<td>-3.3</td>
</tr>
<tr>
<td>Deed taxes (all)</td>
<td>468.2</td>
<td>323.2</td>
<td>178.7</td>
<td>-61.8</td>
<td>-44.7</td>
</tr>
<tr>
<td>Other taxes</td>
<td>505.2</td>
<td>523.3</td>
<td>494.7</td>
<td>-2.1</td>
<td>-5.5</td>
</tr>
<tr>
<td>Total taxes</td>
<td>5,159.6</td>
<td>5,315.0</td>
<td>4,897.4</td>
<td>-5.1</td>
<td>-7.9</td>
</tr>
</tbody>
</table>

Source: DC Office of the Chief Financial Officer; amounts before earmarking

DC Tax Collections (cont’d)

DC tax collections: 12-month moving total from December 2006 to May 2010
(Index number: 100 = December 2007)

Source: ORA
DC Economic and Revenue Outlook

• The course of the recovery is uncertain
  – Three quarters of positive GDP growth
  – Continued volatility in equities markets
  – External drivers: oil spill, global crises, fiscal deficits (federal and state)

• DC does appear to have turned a corner
  – The value of home sales has increased year over year
  – Commercial office occupancy has stabilized
  – The growth in new unemployment claims has slowed
  – Hotel stays are growing again

• But DC revenues will be slower to recover
  – Lagged effect of real property as housing collapse assessments enter data
  – Sluggish growth in major taxes
DC Economic and Revenue Outlook

• Resident employment is expected to rebound in FY 2011 but won’t regain 2008 level until 2013
• Resident wages will also begin to grow again but at a slower rate than the historical 5.5%

DC Economic and Revenue Outlook

Revenue Growth (Net of Dedicated Distributions)

Based on February 2010 Revenue Estimate plus recently enacted legislation.
Source: ORA
Contact Info
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Our website: www.cfo.dc.gov

Information
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- DC Retirement Plans
- Tax Rates and Revenues
- Internship Opportunities