

Impact of the Recession on DC Economy and Tax Revenues

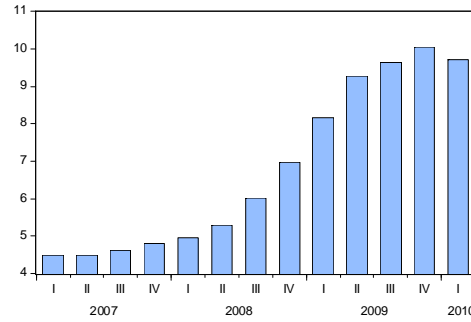
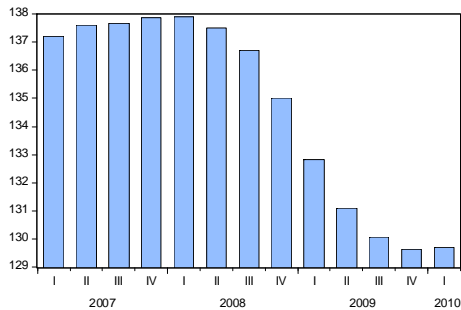
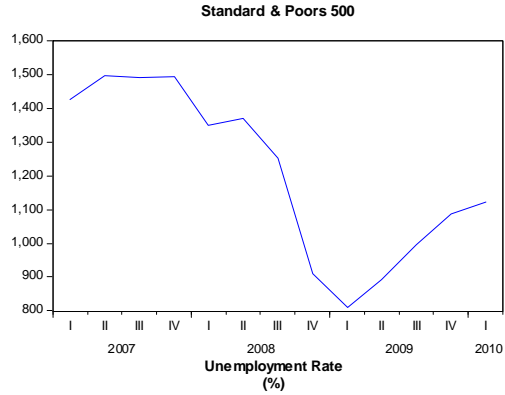
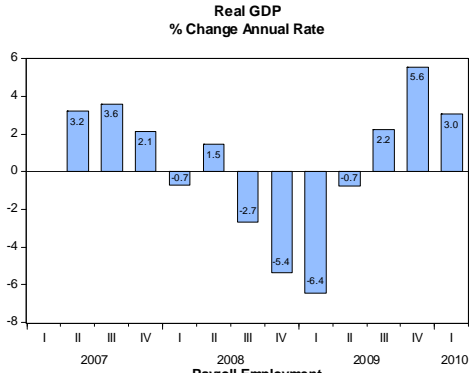
Presented by

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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

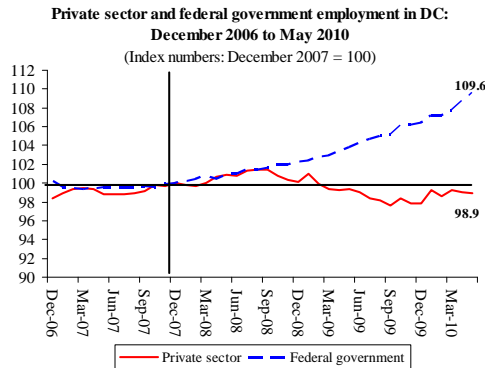
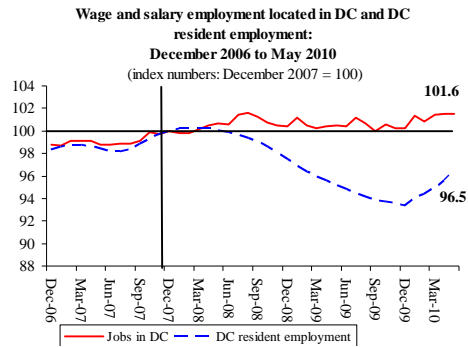


Source: BLS, BEA, Global Insight

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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%

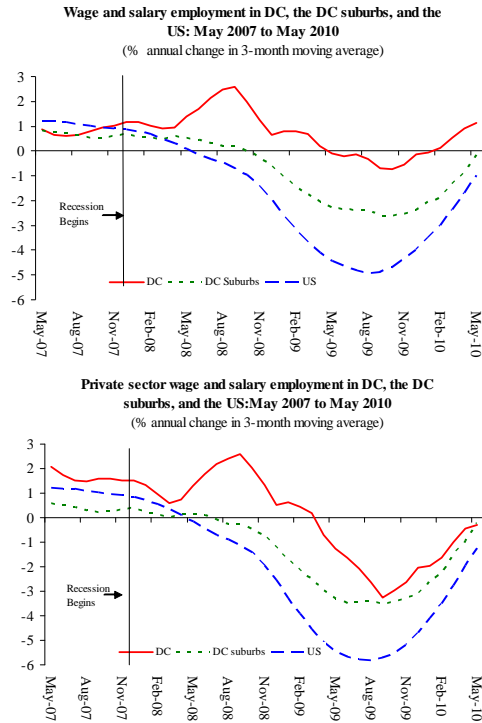


Source: BLS

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

Source: BLS



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DC Labor Market (cont'd)

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

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

Source: US Bureau of Labor Statistics, calculated from seasonally unadjusted 3-month moving averages.

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DC Labor Market (cont'd)

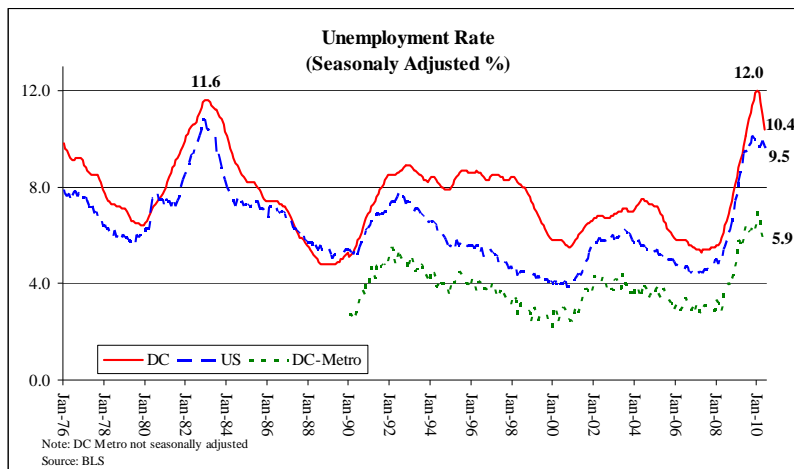
Wage and salary employment in DC and the US: December 2007 to May 2010

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

Source: US Bureau of Labor Statistics

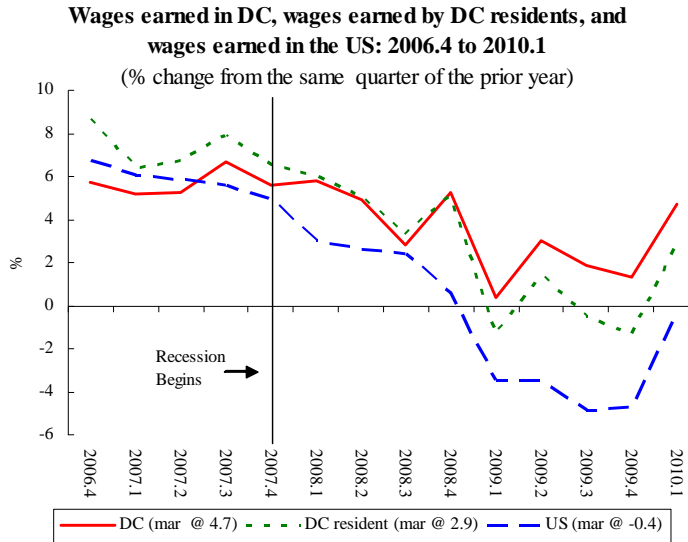
DC Labor Market (cont'd)

- 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.



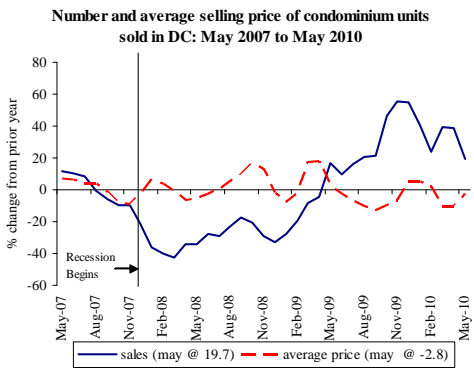
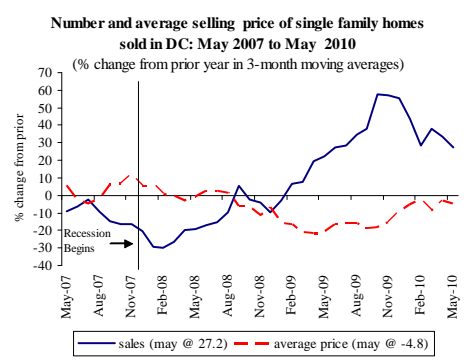
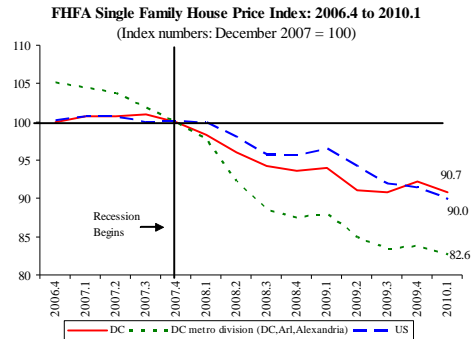
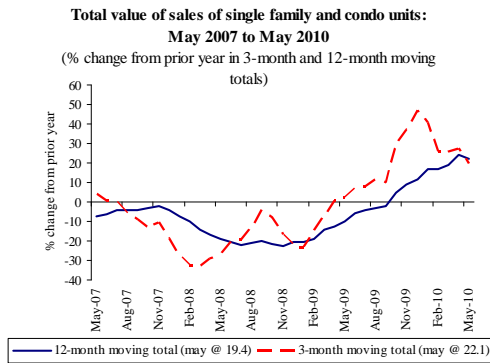
DC Labor Market (cont'd)

- 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.



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Housing Market

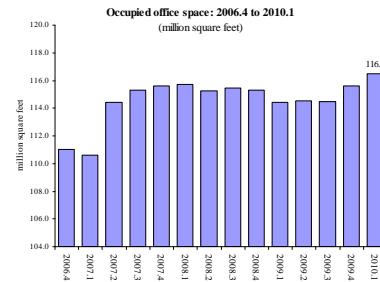
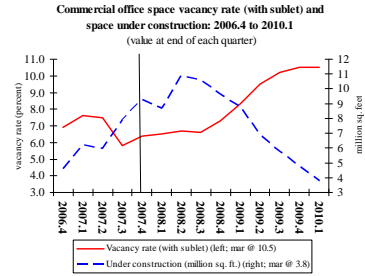


Source: MRIS; FHFA

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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



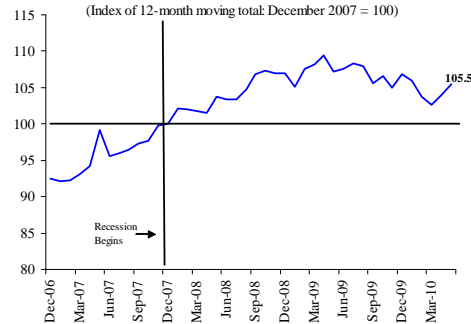
Source: Delta Associates

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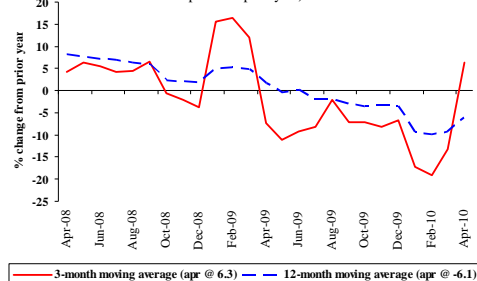
Tourism

- 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

DC Convention Center Transfer from hotel and restaurant sales tax collections: December 2006 to May 2010
(Index of 12-month moving total: December 2007 = 100)



Hotel room sale revenue: April 2008 to April 2010
(percent change in 3-month and 12-month moving average from same period of prior year)



Source: ORA; Smith Travel

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DC Tax Collections

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

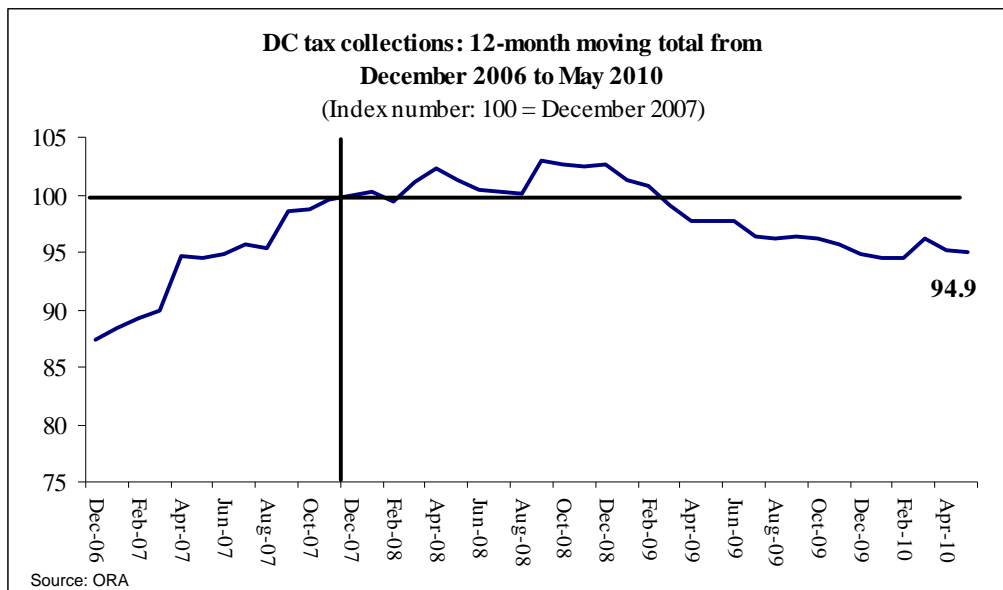
DC tax collections for 12 months ending December 2007, September 2008, and May 2010
(dollar amounts in millions)

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

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

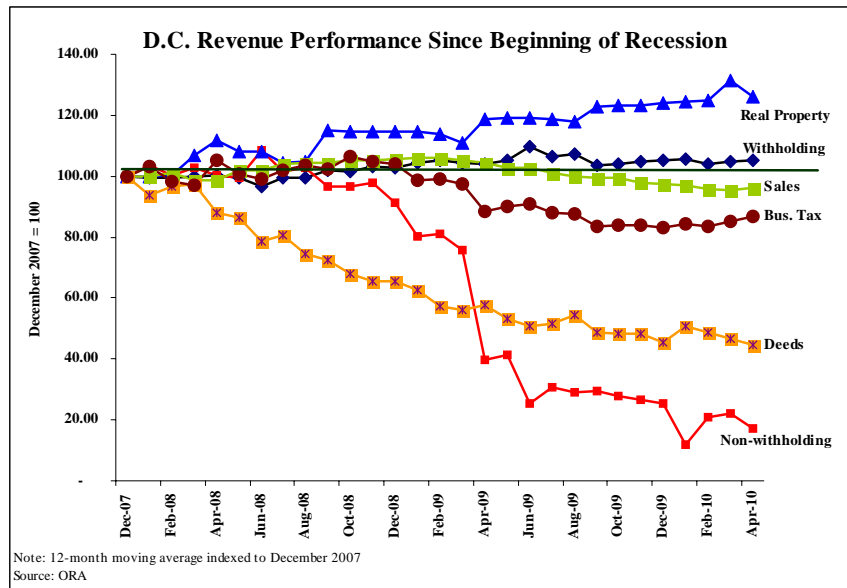
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DC Tax Collections (cont'd)



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DC Tax Collections (cont'd)



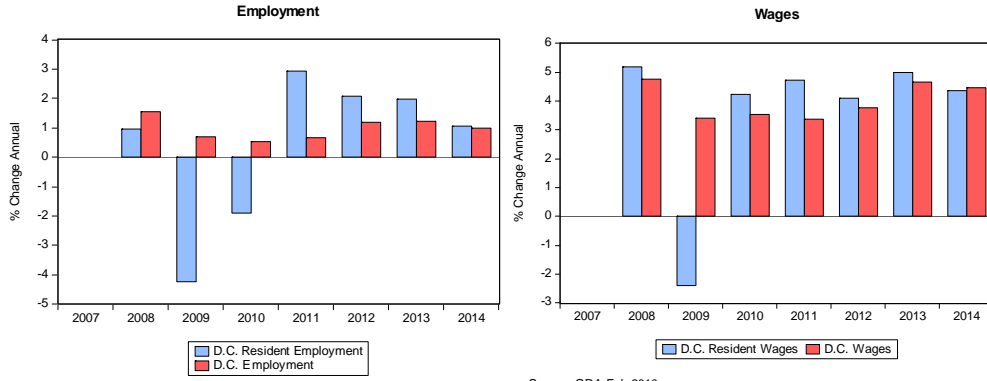
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DC Economic and Revenue Outlook

- 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

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DC Economic and Revenue Outlook

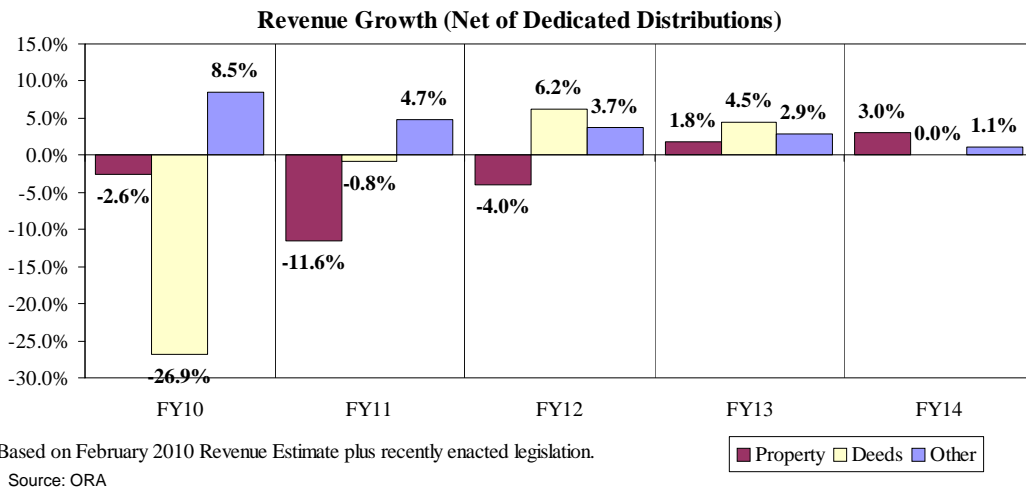


Source: ORA Feb 2010

- 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%

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DC Economic and Revenue Outlook



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Contact Info

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Our website: www.cfo.dc.gov

Information

- Annual Operating Budget and Capital Plan
- Annual Financial Reports
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- Economic Trends, Monthly Review
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- Tax Rates and Revenues
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