

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



Natwar M. Gandhi
Chief Financial Officer

DEC 16 2005

The Honorable Anthony A. Williams
Mayor of the District of Columbia
1350 Pennsylvania Avenue, NW – 6th Floor
Washington, DC 20004

The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW – Suite 504
Washington, DC 20004

Dear Mr. Mayor and Chairman Cropp:

I am pleased to certify, as of December 2005, revenue estimates for FY 2006-2010. Total non-dedicated General Fund revenues for FY 2006, after tax policy changes, are estimated to be \$4,495.4 million, a \$29.5 million increase over the September 2005 estimate. FY 2007 projected revenue is \$4,722.4 million, which is \$30.0 million more than previously projected.

The December revenue estimate and projections are based on FY 2005 preliminary end of year revenue totals and baseline. The additional revenues are due mainly to stronger than forecasted growth in the individual income and public utilities gross receipts taxes and higher than expected collections from interest income in the non-tax category. The individual income estimate reflects strong employment and earnings growth for District residents over the past year while the higher gross receipts tax is fueled mainly by higher energy prices. Revenue from interest income is due to higher interest rates as the Federal Reserve Bank continues to pursue its high interest rate policy. The expected revenues, as compared to the September 2005 quarterly estimate, are as follows:

Local Source, General Fund Revenue Estimate (S million)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Total Non-dedicated General Fund revenue estimate, December 2005	4,519.7	4,748.7	5,023.2	5,311.4	5,595.3
Impact of policy changes triggered by December 2005 estimate	(24.3)	(26.3)	(28.4)	(30.1)	(31.9)
Non-dedicated General Fund revenue estimate December 2005, net of triggered policy changes	4,495.4	4,722.4	4,994.8	5,281.3	5,563.4
Compare to: Non-dedicated General Fund revenue estimate, September 2005, net of tax policy changes	4,465.9	4,692.4	4,968.4	5,257.7	-
Net change over September 2005 estimate after triggered policy changes	29.5	30.0	26.4	23.6	-

The following is the history of the FY 2006 estimate and FY 2007 projection since the February 2005 estimate that was the basis for the FY 2006 budget:

FY 2006 & FY 2007 Certification History (\$ millions)		
Summary	FY 2006	FY 2007
Non-dedicated General Fund Certified Revenues, est. of Feb 2005	4,515.1	4,746.1
Added May 2005	40.0	43.6
Tax policy changes June 2005	(119.4)	(125.5)
June 2005 Estimate Net of Tax Policy Changes	4,435.7	4,664.2
Added September 2005	51.7	51.9
Non-dedicated General Fund Certified Revenues, est. of Sept 2005	4,487.4	4,716.1
Policy changes triggered by Sept 2005 estimate	(21.5)	(23.7)
Sept 2005 Certified Revenues Net of Tax Policy Changes	4,465.9	4,692.4
Added December 2005	53.8	56.3
Non-dedicated General Fund Certified Revenues, Dec 2005	4,519.7	4,748.7
Policy changes triggered by Dec 2005 estimate	(24.3)	(26.3)
Dec 2005 Certified Revenues Net of Tax Policy Changes	4,495.4	4,722.4

The revised revenue estimate triggers the following tax reductions and expenditures as incorporated into the FY 2006 Budget Support Act:

Local Source, General Fund Revenue Estimate (\$ million)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Triennial Group Taxable Assessment Disparity Correction Act of 2005	(19.2)	(21.0)	(22.8)	(24.4)	(26.1)
Disabled Person Tax Reduction Act of 2005	(3.6)	(3.7)	(3.8)	(3.8)	(3.8)
Disabled Property Owners Tax Reduction Act of 2005	(1.5)	(1.6)	(1.8)	(1.9)	(2.0)
Total	(24.3)	(26.3)	(28.4)	(30.1)	(31.9)

This revenue estimate is made from an economic backdrop that continues to look strong for the District. Specifically, wage and salary employment located in the District continues to grow. At the end of the third quarter of 2005, overall jobs in the District increased by 10,800 jobs (1.6 %) from a year earlier. The District's private sector employment grew at a rate of 2.3%, faster than the national rate of 1.8%. District job gains were especially strong in the professional service, non-profit service, and hospitality sectors, with the employment of District residents showing an increase. In the third quarter of 2005, District resident employment was up by 8,600 jobs, for an increase of 2.7% from a year earlier. Similarly, wage growth has continued to be strong in the District of Columbia. In the second quarter of 2005, wages earned in District were 6.8% higher than a year earlier, and wages earned by District residents were an estimated 5.6% higher.

Although there are some signs of moderation in the growth of the real estate market in some regions, the District real estate market remains very strong. On the residential side, single family unit sales declined 9.0% in the end of the third quarter, but condominium sales for the same period were up 3.1%. Furthermore, average home prices continue to increase, with the end of FY 2005 showing price increases of 23.3% for single family homes and 18.5% for condominiums. On the commercial side, the District remains one of the strongest markets in the nation. At the end of FY 2005, the commercial vacancy rate stood at 5.2%, a decrease from FY 2004. The value of commercial sales in the first two quarters of FY 2005 was 16.6% greater than in FY 2004. Additionally, a price appreciation of 35.2% in the average price per square foot more than offset a 13.8% decline in the number of square feet sold.

The District hospitality sector also experienced very strong growth in 2005. Hotel industry indicators were once again very strong in FY 2005, with room sales revenue up 16.1% over the prior year, showing gains in both the occupancy rate and average daily rate of rooms.

Going forward, the District's favorable economic and revenue outlook will remain strong for several reasons. First, housing demand is high throughout the Washington, D.C. metropolitan area and specifically in the District. Locations within the District boundaries are increasingly desirable because of growing traffic congestion into and out of the city. Additionally, the tourism and hospitality sector continues to show strong growth while the District at large is investing significantly in increased amounts of housing stock. Growing expenditures by the federal government are fueling the District economy, as are investments in economic development. Economic development in the District is bearing dividends in tourism and retail establishments by attracting demand from suburban malls, and development of "nightlife" in downtown.

Still, there are risks to the current strong economic growth. Risk factors to the District's economy include the uncertain nature of the current national economic recovery, especially consumer expenditures. Cutbacks in federal spending as part of efforts to reduce federal budget deficits could also significantly impact the District. A stock market downturn, rising interest rates and inflation, or even a sharp downturn in the District or regional real estate markets all pose significant risks to the current economic outlook. Finally, geo-political and security issues that have been at the forefront after September 11 and the ongoing Iraq war remain a source of risk to the District economy. As a result, we continue to watch the economy and revenue very closely and will keep you abreast of any changes in the outlook.

If you have any questions regarding this matter, please contact me on (202) 727-0065.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer

Enclosures

DISTRIBUTION LIST

Councilmember Carol Schwartz (At-Large)
Councilmember Kwame Brown (At-Large)
Councilmember David Catania (At-Large)
Councilmember Phil Mendelson (At-Large)
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Councilmember Jack Evans (Ward 2)
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Councilmember Vincent Orange (Ward 5)
Councilmember Sharon Ambrose (Ward 6)
Councilmember Vincent Gray (Ward 7)
Councilmember Marion Barry (Ward 8)
Robert Bobb, Deputy Mayor and City Administrator
Alfreda Davis, Chief of Staff to the Mayor
Deborah K. Nichols, District of Columbia Auditor
Arte Blitzstein, Budget Director, Council of the District of Columbia

FY 2004 - FY 2010 Revenue Actuals, Estimates and Projections

(thousands of dollars)

Revenue Source	FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	Actual	(Preliminary)	Actual	Revised Estimate	Dec-05 Estimate	Dec-05 Revised Estimate	Dec-05 Estimate	Dec-05 Revised Estimate	Dec-05 Estimate	Dec-05 Revised Estimate	Dec-05 Estimate	Dec-05 Revised Estimate	Dec-05 Estimate	Dec-05 Revised Estimate
Real Property	947,690	1,058,101	1,144,043	1,255,696	1,361,341	1,458,480	1,556,455							
Pers. Property (net)	63,558	53,157	54,549	55,165	55,960	56,974	57,644							
Public Space	16,728	15,628	-	-	-	-	-							
Total Property	1,027,976	1,126,886	1,198,592	1,310,861	1,417,301	1,516,454	1,614,099							
General Sales (gross)	732,994	846,454	870,759	922,616	969,043	1,019,501	1,073,431							
Convention Ctr Transfer	(61,977)	(76,063)	(75,210)	(78,250)	(82,313)	(86,588)	(91,091)							
General Sales (net)	671,017	770,391	795,549	844,366	886,730	932,913	982,340							
Alcohol	5,090	5,051	4,979	4,911	4,842	4,774	4,707							
Cigarette	20,765	22,336	21,755	21,190	20,639	20,102	19,579							
Motor Vehicle	40,437	42,380	44,362	46,447	48,630	50,916	53,309							
Total Sales	737,309	840,188	866,645	916,914	960,841	1,008,705	1,059,935							
Individual Income	1,042,309	1,160,073	1,138,732	1,134,677	1,195,595	1,262,436	1,323,527							
Corp. Franchise	168,353	195,492	189,288	212,342	224,276	234,327	243,924							
U. B. Franchise	88,347	116,866	117,830	128,964	139,895	153,868	168,771							
Total Income	1,299,009	1,472,431	1,455,860	1,475,983	1,559,766	1,650,631	1,736,222							
Public Utility (gross)	169,494	174,933	166,041	166,042	166,043	166,043	166,044							
Baseball Gross receipts tax	-	(8,893)	(9,184)	(9,303)	(9,424)	(9,546)	(9,668)							
Public Utility (net)	169,494	166,040	156,857	156,739	156,619	156,497	156,488							
Toll Telecommunication (gross)	54,951	55,609	54,607	54,612	54,721	54,742	54,760							
Baseball Gross receipts tax	-	(1,060)	(3,162)	(3,165)	(3,165)	(3,165)	(3,165)							
Toll Telecommunication (net)	54,951	54,549	51,445	51,447	51,556	51,577	51,595							
Insurance Premiums	47,452	48,888	48,000	48,000	48,000	48,000	48,000							
Healthcare Provider Tax	-	-	11,000	11,000	11,000	11,000	11,000							
Total Gross Rec.	271,897	269,477	267,362	267,186	267,175	267,074	267,083							
Estate	26,466	29,257	21,420	20,072	19,352	18,657	18,652							
Deed Recordation (gross)	164,522	190,047	197,978	227,912	260,435	295,932	331,473							
Transfer to HPTF	-	(28,507)	(39,697)	(34,187)	(39,065)	(44,390)	(49,721)							
Deed Recordation (net)	164,522	161,540	168,281	193,725	221,370	251,542	281,752							
Deed Transfer (gross)	121,747	146,929	157,440	178,096	199,949	221,963	246,401							
Transfer to HPTF	-	(22,039)	(26,714)	(33,294)	(39,992)	(46,960)	(53,960)							
Deed Transfer (net)	121,747	124,890	133,824	151,382	169,957	188,669	209,441							
Economic Interests	16,269	10,593	8,000	8,000	8,000	8,000	8,000							
Total Other Taxes	329,004	326,280	331,525	373,179	418,679	466,868	517,846							
TOTAL TAXES	3,665,195	4,035,232	4,119,914	4,344,123	4,623,762	4,908,732	5,195,194							
Licenses & Permits	61,505	62,848	68,408	70,845	68,604	71,661	68,705							
Fines & Forfeits	99,478	110,900	106,366	104,126	100,375	97,468	94,891							
Charges for Services	53,705	51,183	50,513	53,218	52,460	54,161	54,175							
Miscellaneous	109,011	127,041	90,289	92,176	95,792	95,146	98,141							
O-Type Transfer	-	-	12,200	12,200	12,200	12,200	12,200							
TOTAL NON-TAX	323,699	351,972	327,776	332,565	327,431	330,636	328,112							
Lottery/Interfund Transfer	73,500	71,200	72,000	72,000	72,000	72,000	72,000							
TOTAL NON-DEDICATED GENERAL FUND	4,062,394	4,468,404	4,519,690	4,748,688	5,023,193	5,311,368	5,595,306							

PRIORITIZED LIST OF BUDGET CHANGES TRIGGERED BY REVISED REVENUE ESTIMATES* (\$ '000s)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
5. Triennial Group Taxable Assessment Disparity Correction Act	-	(19,151)	(22,802)	(24,410)	(26,119)
6. Disabled Person Tax Reduction Act of 2005	-	(3,630)	(3,780)	(3,780)	(3,780)
7. Disabled Property Owners Tax Reduction Act of 2005	-	(1,492)	(1,539)	(1,902)	(2,003)
TOTAL POLICY CHANGES	-	(24,273)	(26,354)	(30,092)	(31,902)

* These changes are not reflected in the estimates above.

**Estimated Key Variables for the D.C. Economy for the Forecast Period FY 2001
through FY 2010: (Preliminary)**

Fiscal Years	2001 act	2002 act	2003 act	2004 act	2005 est	2006 est	2007 est	2008 est	2009 est	2010 est
Gross State Product (\$ billion)	61.71 6.0%	66.26 7.4%	69.71 5.2%	75.11 7.7%	80.80 7.6%	85.70 6.1%	90.30 5.4%	95.30 5.5%	100.40 5.4%	105.95 5.5%
Real Gross State Product (billions of \$00)	60.30 3.1%	62.24 3.2%	63.64 2.2%	66.54 4.6%	69.73 4.8%	71.71 2.8%	73.68 2.7%	75.75 2.8%	77.80 2.7%	79.82 2.6%
Personal Income (\$ billion)	24.94 10.9%	25.87 3.7%	26.60 2.8%	28.24 6.2%	30.27 7.2%	32.06 5.9%	33.94 5.8%	35.85 5.6%	37.89 5.7%	40.09 5.8%
Real Personal Income (billions of \$2000)	24.53 8.5%	25.10 2.3%	25.31 0.9%	26.29 3.8%	27.40 4.2%	28.14 2.7%	29.00 3.1%	29.95 3.3%	31.01 3.6%	32.18 3.8%
Per Capita Income (\$)	43,805 11.2%	45,786 4.5%	47,608 4.0%	50,944 7.0%	54,585 7.1%	57,375 5.1%	60,369 5.2%	63,402 5.0%	66,647 5.1%	70,112 5.2%
Real Per Capita Income (\$2000)	43,085 8.7%	44,417 3.1%	45,311 2.0%	47,417 4.6%	49,408 4.2%	50,350 1.9%	51,589 2.5%	52,959 2.7%	54,551 3.0%	56,289 3.2%
Earnings of D.C. Residents (\$ billion)	17.91 14.6%	18.71 4.5%	19.37 3.5%	20.85 7.7%	22.56 8.2%	24.02 6.5%	25.45 5.9%	26.90 5.7%	28.45 5.8%	30.01 5.5%
Population ('000)	569.4 -0.2%	565.1 -0.8%	558.7 -1.1%	554.4 -0.8%	554.6 0.0%	558.8 0.7%	562.1 0.6%	565.4 0.6%	568.5 0.5%	571.7 0.6%
Households ('000)	249.0 0.2%	249.9 0.4%	251.8 0.8%	252.6 0.3%	253.4 0.3%	255.7 0.9%	257.8 0.8%	259.4 0.6%	260.9 0.6%	262.2 0.5%
Civilian Labor Force ('000)	308.3 -0.4%	302.3 -2.0%	298.1 -1.4%	297.9 -0.1%	301.6 1.2%	304.7 1.0%	307.7 1.0%	310.0 0.8%	311.7 0.5%	313.5 0.6%
At-Place Employment ('000)	654.3 1.4%	661.8 1.1%	665.9 0.6%	670.5 0.7%	677.9 1.1%	685.6 1.1%	692.3 1.0%	698.8 0.9%	705.4 0.9%	712.1 0.9%
Resident Employment ('000)	289.8 -0.6%	282.2 -2.6%	277.2 -1.8%	274.5 -1.0%	278.2 1.4%	284.9 2.4%	287.5 0.9%	289.6 0.7%	291.0 0.5%	292.4 0.5%
Unemployment Rate	6.0	6.7	7.0	7.9	7.7	6.5	6.5	6.6	6.6	6.7
Housing Starts	2,450	2,450	2,450	4,548	4,548	3,840	3,840	3,912	3,912	3,912
Housing Stock ('000)	273.7 -0.2%	272.6 -0.4%	274.1 0.5%	274.4 0.1%	274.4 0.0%	276.5 0.8%	278.8 0.8%	280.4 0.6%	281.9 0.6%	283.5 0.6%
Change in S & P 500 Index of Common Stock	-12.2%	-16.0%	-12.5%	19.8%	7.9%	6.6%	5.4%	6.7%	6.8%	6.4%
Interest rate on 10-year Treasury notes (%)	5.2	4.8	3.9	4.3	4.2	4.8	5.2	5.3	5.4	5.4
Washington Area Consumer Prices: % change from prior year	2.9	2.2	3.0	2.5	3.7	3.7	2.3	2.3	2.3	2.3

Note: Estimated by the D.C. Office of Research and Analysis based on forecasts of the D.C. and national economies prepared by Global Insight (Fall 2005) and Economy.com (Nov. 2005); on forecasts of the national economy prepared by the Congressional Budget Office (August 2005) and Blue Chip Economic Indicators (Nov. 2005); on BLS labor market information from Oct. 2005; on the 2000 Census and Census Bureau estimates of the 2004 D.C. population (December 2004); on Bureau of Economic Analysis estimates of D.C. Personal Income (Sep. 2005); and on D.C. Office of Planning information on housing construction activity (Spring 2005).