PUBLIC OVERSIGHT HEARING ON

THE FISCAL YEAR 2010 SPENDING AND PERFORMANCE BY THE OFFICE OF REVENUE ANALYSIS (ORA) OF THE OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO)

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

March 7, 2011
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Council Chamber, John A. Wilson Building

Testimony of
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Good morning Chairman Evans and members of the Committee on Finance and Revenue. I am Fitzroy Lee, Deputy Chief Financial Officer for the Office of Revenue Analysis and Chief Economist. I am pleased to appear before you today to testify on the performance of the Office of Revenue Analysis over the past fiscal year.

Mission of the Office of Revenue Analysis

The mission of the Office of Revenue Analysis is threefold: (1) to provide quarterly revenue estimates that form the hard budget constraint for the District of Columbia's four-year budget and financial plan; (2) to provide policymakers with the information to maintain that hard budget constraint by estimating the fiscal impact of legislation drafted by the Mayor and Council; and (3) to conduct a wide range of fiscal and economic research and analyses on an ongoing basis and at the request of the Mayor and Council, or as directed by the Chief Financial Officer (CFO).

Revenues and Revenue Estimates

One of the main responsibilities of the Office of Revenue Analysis is to provide the quarterly revenue estimates that form the basis of the District's four-year budget and financial plan. On that score, I am pleased to report that, after declining for most of the last 2 years, District tax revenues are rising once more. The revenue estimate that was issued last Tuesday, which increased the revenue estimate for fiscal year 2012 by $105 million, is the result of an improving economy, generally, and a rebound in the District's commercial property sector, more specifically. In the quarter ending in December 2010, the U.S. economy finally recovered all of the lost ground, as measured by real GDP, but there were still about 7 million fewer people employed than when the recession began. The unemployment rate, as reported last Friday, now stands at 8.9 percent, but it is still around twice the rate that it was just before the recession.

In many respects the District of Columbia economy came through the trying economic environment in better shape than nearly all the nation's other states and localities. For example, the District of Columbia had 24,000 (3.4 percent) more persons working in December 2010 than in December 2007 when the recession began. This gain is primarily due to an increase in federal employment, but employment in sectors such as health, education, business, and hospitality services show net gains over the past three years. A number of signs provide some basis for hope that the District of Columbia's economy will continue to gain strength in the next few years. Since 2007, the District's population has grown by more than 22,000. The vacancy rate in commercial office property has been declining for a year and stood at 8.5 percent (including sublets) in December 2010, well below the regional average of 11.9 percent. In contrast to many other jurisdictions, home prices in the District have risen over the past year. In the quarter ending in September 2010, D.C. personal income growth picked up to an annual rate of 4.2 percent. The District's unemployment rate in December 2010 was still at the relatively high rate of 9.7 percent (it is usually between 5 and 6 percent), but it is now lower than the 12.0 percent rate it was in January 2010.

Despite the many favorable signs, there are considerable risks ahead, both national, and specific to the District. The national economy is not yet on a fully established growth path. International turmoil could lead to higher energy prices that could undo the gains we have seen. Debates in Congress to reduce federal spending may have consequences for the degree to which federal spending will continue to spur the growth in the economy of the District of Columbia.

Even though the District weathered the recession better than many other places, the recession took a heavy toll on the District's revenue, especially during fiscal year

2010. In fiscal year 2010, total tax revenue (before earmarks) was $320 million (6.0 percent) less than it was in FY 2008. The biggest decrease – about $250 million – was in the non-withholding portion of the individual income tax collections. Declines over the two year period also occurred in business income taxes (down by about $90 million), deed taxes (down by about $65 million), and the general sales tax (down by about $40 million). Gains in real property tax (up about $55 million) offset some of the losses in other tax collections.

Fiscal Impact Statements

During fiscal year 2010, the difficult economic conditions and the consequent budget issues also affected our fiscal impact statement work. The FIS team at ORA worked on several iterations of the FY 2011 Budget Support Act including the most recent gap closing in December 2010, collaborating with the Mayor and the Council staff to ensure that the necessary legislative vehicle was in place to execute the budget plan, and all policy proposals were accommodated within the proposed budget.

Fiscal impact statements are important tools of enforcing hard budget constraints—these analyses ensure that no new legislation is put in place without the necessary funding required to implement the proposed legislation. In this difficult budget environment, correctly determining the potential cost of proposed legislation is crucial in protecting the city from additional financial risks. The FIS team will continue to carefully research all legislative proposals and scrutinize all input from all agencies of the D.C. government. We will also continue to work very closely with District government agencies and the Council staff. As you might have noticed, our FIS team is now organized to be more closely aligned to the committee structure in the Council, and we actively pursue the legislative timeline to ensure we have

sufficient time to conduct thorough analyses of proposed bills. We have also established a wider distribution of these documents within the government to ensure that all relevant parties have timely access to the fiscal impact statements.

Research and Analyses

In addition to the revenue estimates and fiscal impact statements, ORA provides District stakeholders with a number of fiscal and economic reports, all of which are subject to a peer-review process prior to release and publication. These include:

- *DC Economic Indicators* is published monthly and provides a two-page "at a glance" overview of four key sectors of the D.C. economy: (i) "labor and industry" which includes information on District employment trends, along with the composition of employment by industry and the level of resident employment; (ii) "revenue" collections by major tax types; (iii) "D.C. and U.S. Economic information," including D.C. personal income, inflation, and unemployment rate trends; and (iv), "real estate" that provides information on home sales volume and prices and commercial office vacancy rates and inventory.
- A *Review of District of Columbia Economic and Revenue Trends* is published monthly and provides a wealth of information on all aspects of the D.C. economy, including employment, wages, housing, commercial office space, and the hospitality and retail industries.
- *Tax Rates and Tax Burdens: Washington Metropolitan Area* is published annually and provides not only a comparison of the District's statutory rates with its five neighboring jurisdictions (Alexandria and the counties of Montgomery, Prince George's, Arlington and Fairfax), but also comparative measures of household tax burden by type of tax for different income levels.

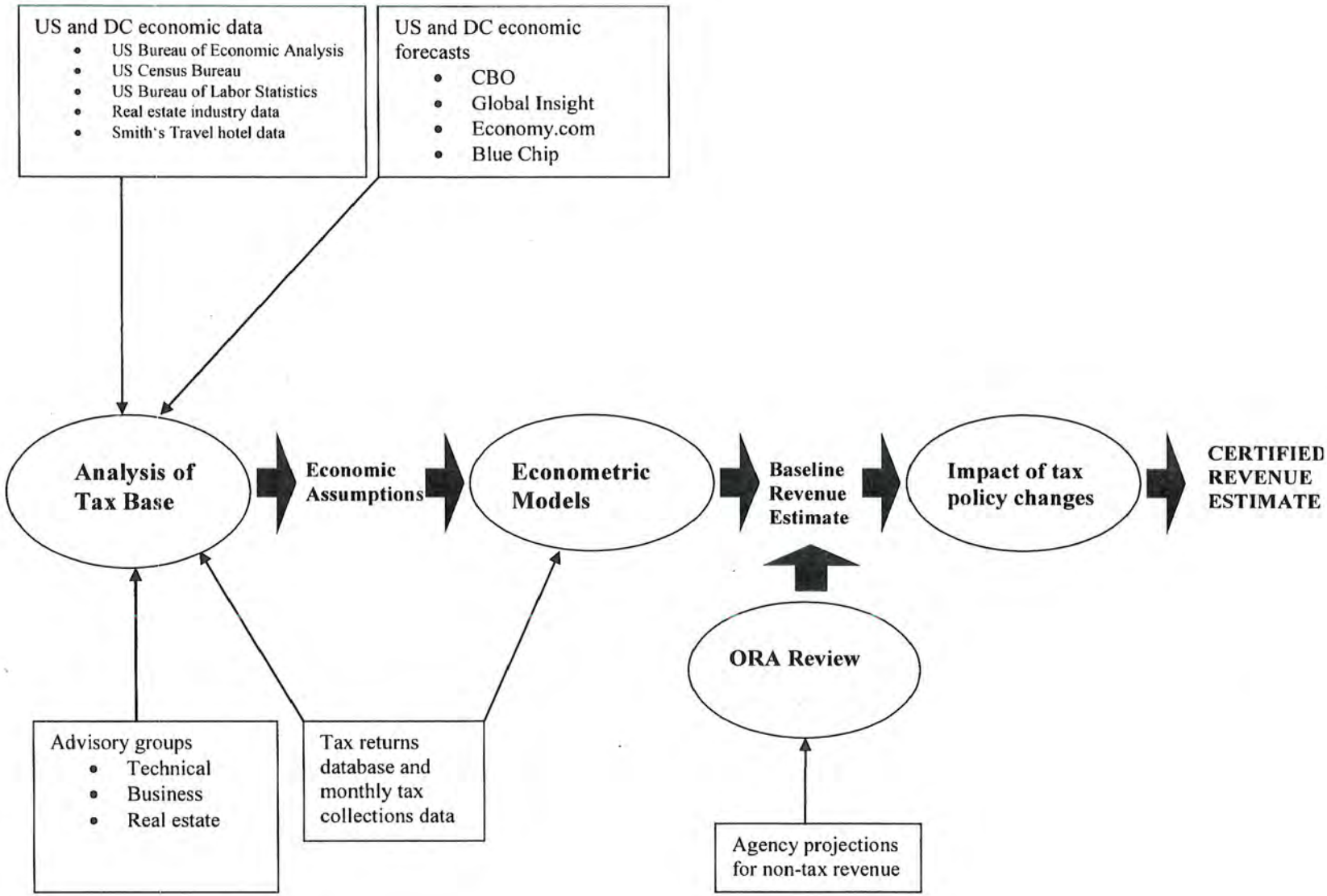
- *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison* is an annual publication that provides a compendium of statutory tax rates and estimates of the household burden of major taxes by income class in the District compared with the largest city in each of the 50 states. The summary table from this report is reproduced in the annual *Statistical Abstract of the United States.*
- *The Economic Report of the District of Columbia (Data Book)* is an annual publication that provides detailed data on the District's economy and its revenue system.
- *DC Tax Facts* is an important and widely used reference of District tax collections and describes all of the District's revenue (tax and non-tax) sources, the history of major revenue changes since 1970, filing and payment dates, and the yield of each revenue source utilized by the District.
- ORA also publishes a monthly table of *Cash Collections,* as well as a *Cash Collections Narrative Report* that tracks cash collections by source. This report is critical in monitoring the performance of District revenue collections relative to the revenue estimate.
- *Tax Expenditures* is a biennial report that catalogues and quantifies revenue losses from federal and District tax provisions that grant special relief designed to encourage certain kinds of taxpayer behavior or to aid taxpayers in special circumstances.
- *The District of Columbia Special Purpose Revenue Funds Report* provides background and relevant data about special-purpose revenue funds, which represent an important but little-understood source of revenue for the District of Columbia's general fund. Presently, more than 200 special-purpose revenue funds are used to provide operating support to District government agencies and programs.

- *District of Columbia Non-Tax Revenue Report* provides background and relevant data about general-purpose nontax revenues, which represent an important but little-understood source of revenue for the District of Columbia's general fund. Presently, there are more than 100 general-purpose non-tax revenue sources that provide operating support to District government agencies and programs.
- Each year the ORA is responsible for the preparation of the Revenue chapter that is included in both the Mayor's *Proposed Budget and Financial Plan*, and then, with Council revisions, the Executive Summary of the *Budget and Financial Plan* that is submitted to Congress (June). The Revenue chapter begins with a comprehensive review of the U.S. and District's economic outlook and then proceeds to present in great detail information on the revenue flows by revenue source over the financial plan period. The revenue presentations include detailed as well as summary tables of the baseline revenue estimate and policy proposals included in the budget.

Thanks

Finally, I want to thank the entire ORA team for their hard work and professionalism during what has been a very challenging year for the District. I would especially like to say thank you to the ORA directors, Farhad Niami, Norton Francis, and Yesim Yilmaz for the leadership and teamwork they displayed, not only within ORA, but also in working with other agencies within the Office of the Chief Financial Officer as well as with Mayor and Council staff. This concludes my testimony. I would like to thank you for the opportunity to testify before you today. I am pleased to respond to any questions that you may have.

Chart 1


US and DC economic data
US Bureau of Economic Analysis
US Census Bureau
US Bureau of Labor Statistics
Real estate industry data
Smith's Travel hotel data
US and DC economic forecasts
CBO
Global Insight
Economy.com
Blue Chip
Analysis of Tax Base
Economic Assumptions
Econometric Models
Baseline Revenue Estimate
Impact of tax policy changes
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ORA Review
Advisory groups
Technical
Business
Real estate
Tax returns database and monthly tax collections data
Agency projections for non-tax revenue