February 2025 Revenue Estimate

February 28, 2025

Key drivers of the revenue forecast

Federal Workforce Reductions

- Federal efforts to reduce the federal workforce will disproportionately impact the District metro area and will, over time, have a broad economic impact on the District and the region, including:

  Job Losses
  - Federal employee layoffs create immediate unemployment.
  - Reductions ripple through the private sector, affecting contractors, support services, and businesses that rely on federal spending.

  Reduced Income and Consumer Spending
  - Job losses and economic uncertainty will reduce income and lead to decreased consumer spending, which will affect local businesses, restaurants, and retail.
  - This reduction in spending will create a downward spiral, further impacting the region's economy.

  Commercial and Residential Real Estate Markets
  - The reductions to employment for federal workers and contractors offset the benefits of the federal return to office mandate and thus will not change the current trajectory of the commercial real estate market.
  - The workforce reductions can lead to decreased housing demand, potentially causing property values to decline.

Remote Work

- Preliminary real property assessment data for FY 2026 show lower assessments across all classes of properties as the impact of greater remote work continues to affect office and other commercial properties.

U.S. federal workforce reductions: Quantifying what we know

The scope and scale of federal workforce reductions are significant, as outlined in the table below.

Provisions Impacting Fed Employment for Which Legal Appeals are Exhausted or Tenuous	Number	Fed total	Exclusions*	Timing of the impact of the workforce reductions					
				FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2025-FY 2029**
Buyouts	75,000	2,100,000	0		3.6%				3.6%
Probationary	200,000	2,100,000	30%	3.3%	3.3%	0	0	0	6.7%
¼-Rehire Rule	126,000	2,100,000	25%		4.5%	4.5%	4.5%	4.5%	18.0%
Hiring Freeze	126,000	2,100,000	0	6.0%					6.0%
Total impact				**9.3%**	**11.4%**	**4.5%**	**4.5%**	**4.5%**	**34.2%**
Agency-wide cuts to employees in non-congressionally mandated programs	Currently unknown								

*DC has a relatively low share of excluded or exempt agencies.

U.S. federal workforce reductions: Quantifying what we know

Implications for the District

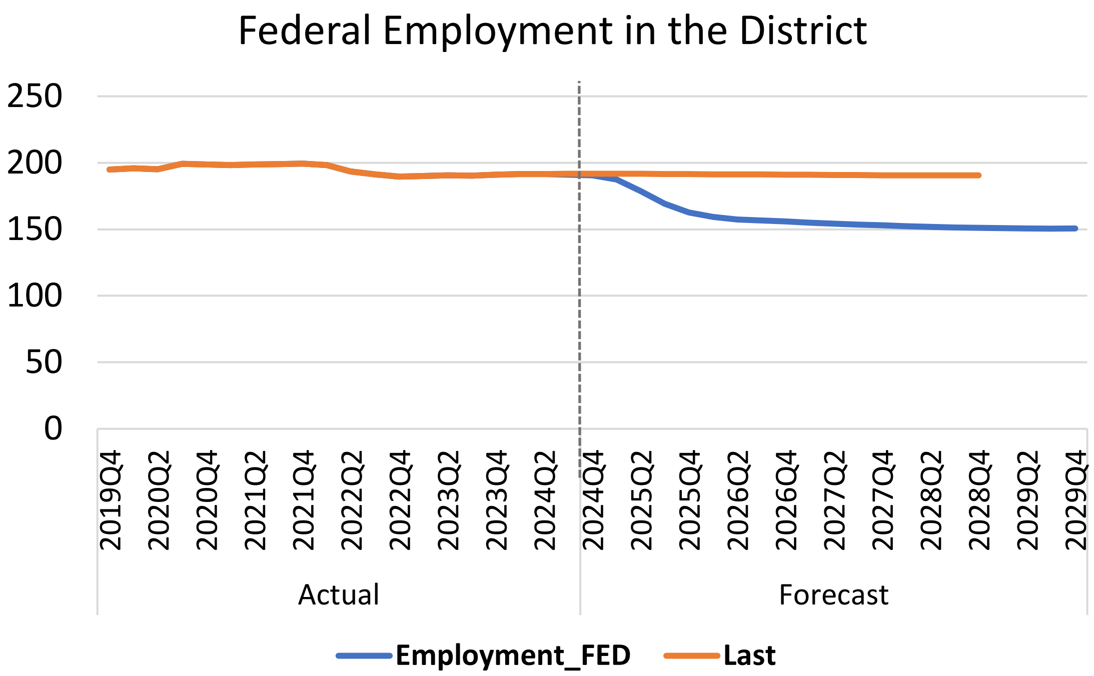
The District and the region will bear a disproportionate share of the federal workforce reductions:

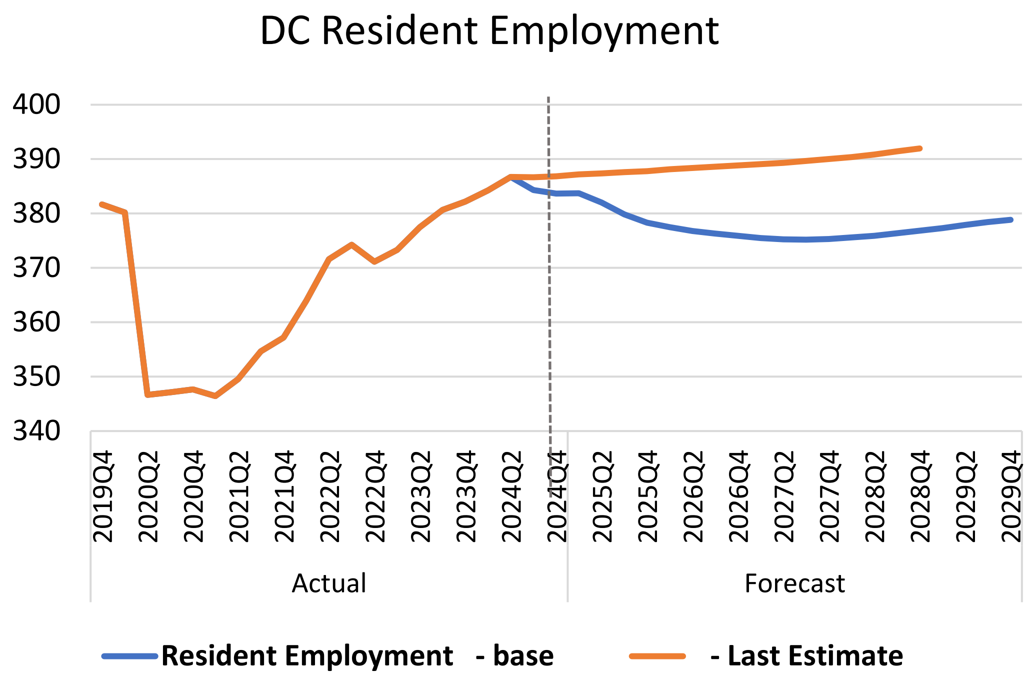
- Approximately 190,000 federal employees work in the District, making up about 9% of the national total and about 25% of total jobs in the District.
- Approximately 72,000 District residents are employed by the federal government, roughly 19% of the District's total resident employment.

Mitigating factors that will temper the severity of these reductions on overall employment in the District:

- Some portion of laid-off federal workers will find employment in the private sector, although likely at lower average wages because the average federal wage is higher than the District average.
- Some portion of federal workers will be rehired or will be substituted by contractors as critical services are affected.

Federal workforce reductions will have a structural impact



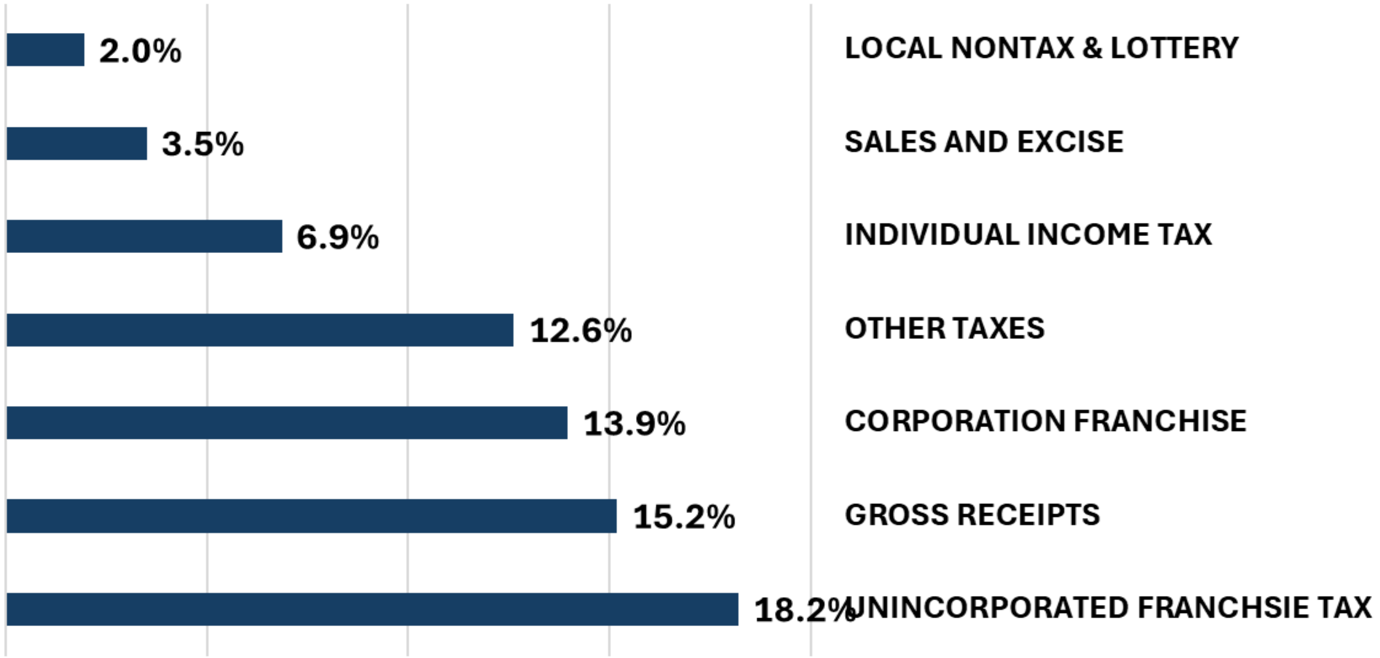


- Federal employment in the District is expected to drop to 150k by the end of our forecasting period, a reduction of 40k, or 21%, compared to the previous forecast.
- The number of jobs in the District is expected to fall by approximately 5%, and the number of jobs held by District residents is expected to fall by approximately 3% over the forecast period.
- Growth rates for District resident wages, personal income, and personal consumption expenditure were revised downward over the forecast period, reflecting the lower employment forecasts.

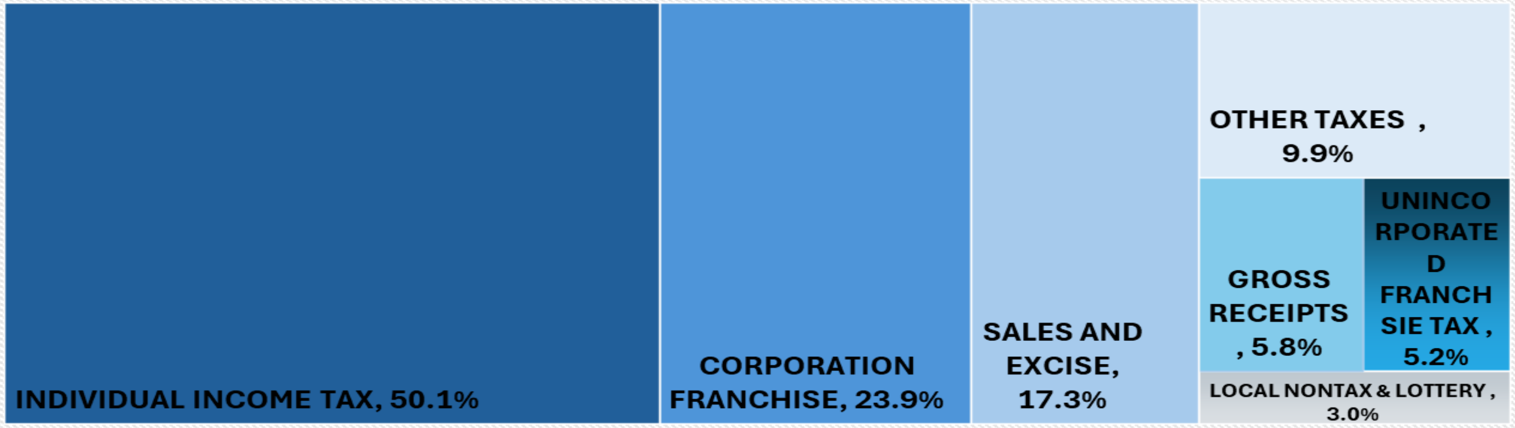
Year-to-date (YTD) Revenue – FY 2025 vs. FY 2024

- FY 2025 YTD gross local revenue is trending upward by $145 million (5.8%) compared to FY 2024, higher than the December forecast of 4%.
- The largest YTD revenue increase comes from individual income tax (IIT), rising by $72.8M, driven entirely by growth in the withholding component.
- Corporate franchise tax receipts also up by $34.7M, is the second largest YTD gain, benefiting from higher earnings of major corporate taxpayers.
- YTD revenue shows 4 months of activity and **does not** reflect the significant cash collection months for the major revenue sources such as property, individual income, and business taxes.
- YTD revenue data also **does not** yet reflect the potential impacts of the new administration's executive actions to shrink the size of the federal workforce.

FY 2025 YTD REVENUE GROWTH



Revenue Share: $145 Million YTD Revenue Increase



FY 2025 - FY 2029 Financial Plan – Local Component

February 2025 Revenue Estimate Compared to Previous Estimate

	Actual	Estimate	Projections			
Local Source, General Fund Revenue Estimate ($M)	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
December 2024 Revenue Estimate	***10,232.2***	***10,701.8***	***10,955.6***	***11,255.2***	***11,642.0***	
February Revision to the Estimate-Local	*-8.3*	*-21.6*	*-325.0*	*-337.8*	*-363.2*	
February 2025 Revenue Estimate	***10,223.9***	***10,680.2***	***10,630.6***	***10,917.4***	***11,278.7***	***11,656.4***

Revenue Change From Previous Year						
Amount	249.4	456.3	(49.6)	286.7	361.4	377.6
Year-Over-Year Percent Change	*2.5%*	*4.5%*	*-0.5%*	*2.7%*	*3.3%*	*3.3%*

FY 2025 - FY 2029 Financial Plan – Forecast Revision

- The largest portion of the downward revision comes from individual income withholding tax (IIT), which is driven by a projected decline in resident employment levels and an increase in the unemployment rate.

- The downward revision to the property tax revenue forecast is driven by lower FY 2026 assessments.

- The sales tax forecast, has been revised downward following a downward adjustment to the personal consumption expenditure (PCE) forecast, (3.4% lower compared to the previous forecast).

REVISION FROM DECEMBER ESTIMATE ($000)

SOURCES OF REVISION	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
PROPERTY	(8,749)	(8,591)	(124,793)	(95,263)	(55,781)
SALES & EXCISE	99	(22,448)	(42,795)	(65,978)	(86,973)
INCOME	-	69,155	(113,528)	(150,883)	(192,684)
GROSS RECEIPTS	-	18,106	31,891	32,573	31,053
DEED, ECON AND ESTATE	-	(1,359)	(1,408)	(1,467)	(2,784)
GROSS TAX	**(8,650)**	**54,863**	**(250,632)**	**(281,019)**	**(307,169)**
NONTAX & LOTTERY	434	(64,584)	(60,187)	(51,018)	(54,839)
Net REVISION (GROSS)	(8,217)	(9,721)	(310,819)	(332,037)	(362,009)
Dedicated revision	99	11,897	14,203	5,799	1,333
LOCAL FUND REVISION	**(8,315)**	**(21,618)**	**(325,022)**	**(337,835)**	**(363,342)**

Risks to Outlook

✓National:

- Uncertainty related to federal policy decisions
- Inflation resurfaces
- Federal government shutdown and decisions over federal spending levels
- Geopolitical turmoil: escalation of the wars in Ukraine and the Middle East
- Risk of U.S. recession

✓District:

- Changes to federal employment and office use patterns
- Population recovery stalls
- Potential reduction in Metro service
- Public safety concerns

Questions?