

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Jeffrey S. DeWitt
Chief Financial Officer

June 30, 2016

The Honorable Muriel Bowser
Mayor of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 306
Washington, DC 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Re: June 2016 Revenue Estimates

Dear Mayor Bowser and Chairman Mendelson:

This letter certifies that revenue estimates for the FY 2016 – FY 2020 District of Columbia Budget and Financial Plan remain unchanged from the February estimate, except for policy changes enacted as part of the June 2016 Budget Support Act. Accordingly, the table below shows the June 2016 revenue estimate adjusted for policy changes.

June revenue estimate compared to previous estimate

	Actual		Estimate			Projected	
Local Source, General Fund Revenue Estimate (\$M)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	
February 2016 Revenue Estimate	6,904.2	6,898.0	7,142.7	7,370.4	7,604.4	7,836.0	
<i>February Tax Triggers</i>			<i>(16.5)</i>	<i>(17.3)</i>	<i>(17.6)</i>	<i>(17.9)</i>	
June 2016 Revenue Estimate	6,904.2	6,898.0	7,126.2	7,353.1	7,586.8	7,818.1	
June 2016 Policy Changes*		3.7	8.3	9.3	8.7	8.7	
June Revenues (after triggered tax policy changes)	6,904.2	6,901.7	7,134.5	7,362.4	7,595.5	7,826.8	
Revenue change from previous year							
Amount		(2.5)	232.8	227.9	233.2	231.3	
Percent	9.5%	0.0%	3.4%	3.2%	3.2%	3.0%	

*The June policy changes primarily reflect a delay in a corporate tax deduction and a one-time increase in FY 2016 in hospital assessments for inpatient and outpatient care.

Revenue Highlights

The revenue estimate is unchanged because overall year-to-date cash collections through May show that overall revenues are on track to match the February estimate. As discussed in more detail below, collections from some revenue sources slightly exceed the revenue estimate, while collections from other sources are slightly lower than anticipated. Unlike the June 2015 estimate, which reflected stronger than forecasted wage growth in the out-years and a positive “April surprise” related to stronger than expected capital gains realizations, this quarterly estimate reflects increased uncertainty in traditional revenue sources and no extraordinary one-time revenues at this time. Taken together, these trends do not warrant a change in the estimate from February.

Year-to-date collections through May show that revenue from sales, business income, and deed recordation and transfer taxes are on pace to exceed the February forecast. Year-to-date sales tax collections through May (adjusted for last year’s one-time gain due to the District’s settlement with online travel companies) declined only 0.3 percent compared to the forecasted decline of 1.9 percent. Back-to-school sales are an important driver of sales tax performance in the fourth quarter of the fiscal year and will determine whether or not sales tax collections finish the fiscal year with their current strength.

Business income and deed recordation and transfer tax collections are also performing better than expected. Many large business taxpayers file extension payments in March and April, and we do not expect to receive their final tax payments until September. These final payments, which will reflect tax policy changes that were implemented last year, will determine the extent to which business tax collections continue to exceed expectations.

Weaker than anticipated collections in individual income and real property taxes offset the strength in sales, business income, and deed taxes receipts. The greatest potential offset is from the individual income tax. Collections from the largest component of individual personal income, the employer withholding portion, are growing more slowly than expected. The February revenue estimate forecasted annual growth of 4.4 percent in withholding tax collections for fiscal year 2016. Growth in year-to-date withholding collections through May is averaging only 2.9 percent. However, based on current wage and salary trends, we expect that growth in withholding tax collections will accelerate over the next several months.

The other component of personal income is non-withholding. This includes revenues associated with capital gains and refunds due to overpayments. While year-to-date non-withholding tax collections through May are running ahead of the estimate, growth in the level of refunds has accelerated in the last three months and poses an additional risk to the individual income tax forecast. As we are at the end of the income tax processing cycle, we expect the volume of recent large increases in refunds to moderate.

Real property taxes collections are also growing slightly slower than forecasted, but we expect the current shortfall to be made up in September when second half payments are due.

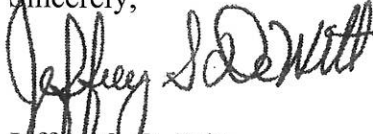
Economic Outlook

The economic outlook continues to be one of moderate economic growth throughout the period of the financial plan, and remains unchanged from February. Thus far in FY 2016, both employment located in DC and DC resident employment have increased a bit faster than estimated in February, but at a pace still below that which occurred in FY 2015. However, the outlook for the US economy appears to have declined since the February revenue estimate, which suggests caution is in order regarding the direction of the District's economy. US real GDP growth fell below 1 percent in the first quarter of 2016, and in April and May, the average pace of US job gains slowed to only 80,000, after adjustment for the Verizon strike. Over the last several months, the Blue Chip Economic Indicators, which average the forecasts of 50 prominent economists, reduced its estimates for real GDP growth for both FY 2016 and FY 2017. The Blue Chip estimates for FY 2016 and FY 2017 are below the actual rate of growth for FY 2014 and FY 2015.

The fallout from Brexit and the uncertainty it brings to business planning pose a real risk to the global financial markets and the global economy, but it is too early to assess its impact on the national and District economies. We are monitoring the situation closely and any effects on the District's finances will be reflected in future revenue estimates. Other risks include continued weakness in the global economic outlook and potential national security events.

If you have any questions regarding this matter, please contact me on (202) 727-2476.

Sincerely,



Jeffrey S. DeWitt

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