

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

August 15, 2006

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

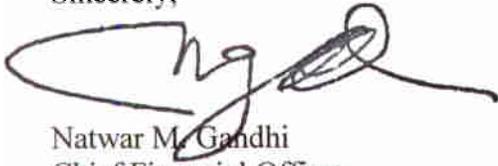
Dear Mr. Mayor and Chairman Cropp:

I would like to inform you that the revenue estimates for FY 2006-2010 remain unchanged from the May 2006 certification. There are no major changes from the May economic outlook. Although we are currently seeing some softening in the DC real estate market, we do not expect a crash or even a very sharp slowdown. In the residential market, the number of transactions has declined, but some measure of price growth has continued. We expect continued moderation in the overall market over the next 18 months resulting in a soft landing. Employment and income growth in the District remain among the strongest in the nation. The hospitality sector also remains vibrant, although occupancy rates seem to be down a bit from a year ago and room rate increases are in the single digits. Overall, the District's economy and revenue performance is quite strong at this time and we expect the economy to remain this way heading into FY 2007.

Nevertheless there are several growing risks to the District's current strong economy and revenue growth that bear close watching. First, we are awaiting the court decision on the Bender case which, if the decision goes against the District, could cost the District up to \$150 million annually. There are also a number of risks to the national economy that could threaten the District's strong economic growth over the next 18 months. Nationally, economic growth appears to be slowing. Interest rates and oil prices are rising; inflation remains high although most forecasters expect it to moderate in the coming months; the stock market seems to lack direction; and geo-political concerns, including the wars in the Middle East and the recent uncovering of a terrorist plot, could negatively impact the DC hospitality sector. We will continue to watch these developments closely and I will keep you abreast of any drastic changes in the District's economic outlook.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Natwar M. Gandhi', is written over a light gray rectangular background.

Natwar M. Gandhi
Chief Financial Officer

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