

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



Natwar M. Gandhi
Chief Financial Officer

SEP 22 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 September 2005, revised revenue estimates for FY 2005-2009. Total non-dedicated General Fund revenues for FY 2006 after tax policy changes are estimated to be \$4,487.4 million, which is \$51.7 million more than the estimate certified in June 2005. The additional revenues are due mainly to stronger than expected growth in the individual and corporate income taxes as the economy continues to strengthen, generating higher profits and incomes. There is also additional revenue from interest income as the Federal Reserve continues to boost overnight interest rates. Special Purpose Fund (O-type) revenues for FY 2005 have been revised upward slightly to \$248.7 million, a \$1.4 million increase. The expected revenues, as compared to the February 2005 estimate, are as follows:

Local Source, General Fund Revenue Estimate (\$ million)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
General Purpose General Fund revenue, est. of Sept 2005	4,360.2	4,487.4	4,716.1	4,994.0	5,285.1
Special Purpose (O-type) revenue, est. of Sept 2005	248.7	264.3	273.6	280.3	287.8
Total General Fund Revenue, est. of Sept 2005	4,608.9	4,751.7	4,989.7	5,274.3	5,572.9
Impact of policy changes triggered by Sept 2005 estimate*		(42.5)	(44.6)	(46.6)	(48.4)
Total General Fund estimate net of triggered policy changes	4,608.9	4,709.2	4,945.1	5,227.7	5,524.5
Net change over June 2005 estimate after triggered changes	34.4	9.2	7.3	6.9	9.5
History of Revenue Estimates:					
General Purpose General Fund baseline revenue, est. of Feb 2005	4,276.6	4,515.1	4,746.1	5,022.2	5,309.7
Special Purpose (O-type) revenue, est. of Feb 2005	247.3	264.3	273.6	280.3	287.8
Tax policy changes (from June Budget Book)	50.6	(79.4)	(81.9)	(81.7)	(82.5)
Total General Fund revenue, est. of June 2005 w/ tax policy changes	4,574.5	4,700.0	4,937.8	5,220.8	5,515.0

* These contingency items are identified in the FY2006 Budget Support Act as approved by Congress.

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

Local Source, General Fund Revenue Estimate (\$ million)	FY 2006	FY 2007	FY 2008	FY 2009
1. Residential Property Tax Rate & Cap Reduction Act of 2005	(20.9)	(23.0)	(24.9)	(26.6)
2. Limited-Equity Cooperative Tax Fairness Act of 2005	(0.2)	(0.2)	(0.2)	(0.3)
3. Affordable Housing Preservation Tax Assessment Act of 2005	(0.4)	(0.4)	(0.5)	(0.5)
4. Appropriation of Additional Revenue Act of 2005	(21.0)	(21.0)	(21.0)	(21.0)
Total	(42.5)	(44.6)	(46.6)	(48.4)

Although the national and Washington area economies continue to grow at a modest pace, hurricane Katrina introduces new risks. The main risk that Katrina poses to the DC area economy is a sharp uptick in the rate of inflation due to the energy price surge since Katrina. Specifically, an increase in the price of construction materials could lead to a slowdown in the DC construction boom, which has been a source of strength for the DC economy for the last several years.

Rising inflation as a result of Katrina could also impact DC’s hospitality sector. On the one hand, the District’s hospitality sector could benefit from an increase in convention bookings while New Orleans remains closed for business (there is one confirmed booking from a convention that was planned for New Orleans in 2006; there are also 37 others that were planned for New Orleans in 2006 but now has DC as an alternative venue). On the other hand, the high gasoline prices since Katrina could reduce consumer spending in general, and tourism spending in particular.

At this point it is still too early to tell whether the energy price increases from Katrina will be long-lasting (crude oil prices, which had risen to as much as \$70.85 a barrel in the immediate aftermath of hurricane Katrina, have since fallen back to around \$65; but high gasoline prices persist) and, if so, whether and how exactly it will impact the District’s economy and revenue. We will be watching this situation very closely and will keep you abreast of any changes.

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)
Councilmember Jim Graham (Ward 1)
Councilmember Jack Evans (Ward 2)
Councilmember Kathleen Patterson (Ward 3)
Councilmember Adrian Fenty (Ward 4)
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 2003 - FY 2009 Revenue Actuals, Estimates and Projections
(thousands of dollars)

Revenue Source	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		FY 2009	
	Actual	Actual	Sep-05 Revised Estimate											
Real Property	822,845	947,690	1,067,445	1,170,616	1,285,747	1,393,788	1,492,072							
Peris. Property (net)	67,294	63,558	54,100	54,549	55,165	55,960	56,974							
Public Space	11,749	16,728	16,765											
Total Property	901,888	1,027,976	1,138,310	1,225,165	1,340,912	1,449,748	1,549,046							
General Sales (gross)	690,370	732,994	842,000	870,759	924,262	970,904	1,020,534							
<i>Convention Ctr Transfer</i>	(58,909)	(61,977)	(70,310)	(75,210)	(79,699)	(83,611)	(87,775)							
General Sales (net)	631,465	671,017	771,690	795,549	844,584	887,293	932,759							
Alcohol	4,619	5,090	4,902	4,600	4,540	4,482	4,426							
Cigarette	21,344	20,765	22,073	21,193	20,554	19,970	19,417							
Motor Vehicle	37,066	40,437	39,386	41,236	43,154	45,146	47,219							
Total Sales	694,494	737,309	838,051	862,578	912,832	956,891	1,003,821							
Individual Income	928,968	1,042,309	1,120,684	1,112,633	1,108,133	1,168,038	1,232,119							
Corp. Franchise	156,777	168,353	218,292	214,066	223,541	233,020	242,860							
J. B. Franchise	81,707	88,347	103,013	108,472	117,949	126,614	140,152							
Total Income	1,167,452	1,299,009	1,441,989	1,435,171	1,449,623	1,529,672	1,615,131							
Public Utility (gross)	166,743	169,494	156,006	155,117	158,106	161,147	164,326							
<i>Baseball/ Gross receipts tax</i>			6,888	8,164	8,303	8,424	8,546							
Public Utility (net)	166,743	169,494	149,118	145,933	148,803	151,723	154,780							
Toll Telecommunication (gross)	53,324	54,951	50,999	51,391	53,409	55,735	58,152							
<i>Baseball/ Gross receipts tax</i>			2,371	3,162	3,165	3,165	3,165							
Toll Telecommunication (net)	53,324	54,951	48,628	48,229	50,244	52,570	54,987							
Insurance Premiums	41,281	47,452	44,500	44,500	44,500	44,500	44,500							
Healthcare Provider Tax	-	-	-	11,000	11,000	11,000	11,000							
Total Gross Rec.	261,348	271,897	242,246	249,662	254,547	259,793	265,267							
Estate	29,944	26,466	23,440	21,420	20,072	19,352	18,657							
Deed Recordation (gross)	134,262	164,522	169,781	197,978	227,912	260,435	295,932							
<i>Transfer to HPTF</i>			(25,467)	(29,897)	(34,187)	(39,065)	(44,390)							
Deed Recordation (net)	134,262	164,522	144,314	168,281	193,725	221,370	251,542							
Deed Transfer (gross)	99,052	121,747	132,570	157,440	178,096	199,948	221,963							
<i>Transfer to HPTF</i>			(19,886)	(23,616)	(26,714)	(29,992)	(33,294)							
Deed Transfer (net)	99,052	121,747	112,684	133,824	151,382	169,957	188,669							
Economic Interests	4,934	16,269	4,500	4,500	4,500	4,500	4,500							
Total Other Taxes	268,192	329,004	284,938	328,025	369,679	415,179	463,368							
TOTAL TAXES	3,293,374	3,665,195	3,945,534	4,100,601	4,327,593	4,611,283	4,896,633							
Licenses & Permits	59,761	61,505	71,724	69,120	72,829	69,206	73,891							
Fines & Forfeits	88,455	99,478	100,717	111,744	114,608	114,079	114,079							
Charges for Services	65,736	53,705	57,961	44,173	45,938	42,338	42,939							
Miscellaneous	89,905	109,011	102,073	76,443	68,783	70,938	72,292							
<i>G-Type Transfer</i>			12,200	12,200	12,200	12,200	12,200							
TOTAL NON-TAX	303,857	323,699	344,675	313,680	315,358	309,661	315,401							
Lottery/Interfund Transfer	72,050	73,500	70,000	73,100	73,100	73,100	73,100							
TOTAL NON-DEDICATED GENERAL FUND	3,669,281	4,062,394	4,360,209	4,487,381	4,716,051	4,994,044	5,285,134							
Special Purpose Revenue	164,025	241,047	248,748	264,254	273,603	280,326	287,789							
TOTAL GENERAL FUND	3,833,306	4,303,441	4,608,957	4,751,635	4,989,654	5,274,370	5,572,923							

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

1. Residential Property Tax Rate & Cap Reduction Act of 2006	-	-	(20,908)	(22,964)	(24,894)	(26,649)								
2. Limited-Equity Cooperative Tax Fairness Act of 2006	-	-	(203)	(203)	(223)	(242)	(259)							
3. Affordable Housing Preservation Tax Assessment Act of 2006	-	-	(415)	(415)	(456)	(494)	(529)							
4. Appropriation of Additional Revenue Act of 2005	-	-	(21,000)	(21,000)	(21,000)	(21,000)	(21,000)							
TOTAL POLICY CHANGES	-	-	(42,526)	(44,643)	(46,630)	(48,437)	(48,437)							

Estimated Key Variables for the D.C. Economy for the Forecast Period FY 2000 through FY 2009:

Fiscal Years	2000 act	2001 act	2002 act	2003 act	2004 est	2005 est	2006 est	2007 est	2008 est	2009 est
Gross State Product (\$ billion)	57.71	61.64	65.89	69.31	73.55	77.75	81.98	86.24	90.72	95.44
	5.5%	6.8%	6.9%	5.2%	6.1%	5.7%	5.4%	5.2%	5.2%	5.2%
Real Gross State Product (billions of \$96)	58.20	60.07	61.98	63.23	65.70	67.82	69.85	71.95	74.02	76.04
	2.1%	3.2%	3.2%	2.0%	3.9%	3.2%	3.0%	3.0%	2.9%	2.7%
Personal Income (\$ billion)	22.49	24.94	26.04	26.74	28.22	30.02	31.62	33.27	35.00	36.82
	7.0%	10.9%	4.4%	2.7%	5.5%	6.4%	5.3%	5.2%	5.2%	5.2%
Real Personal Income (billions of \$96)	22.62	24.53	25.26	25.45	26.34	27.37	28.14	28.92	29.78	30.68
	4.5%	8.5%	3.0%	0.7%	3.5%	3.9%	2.8%	2.7%	3.0%	3.0%
Per Capita Income (\$)	39,399	43,768	45,874	47,753	50,912	54,153	56,578	59,207	61,849	64,770
	6.7%	11.1%	4.8%	4.1%	6.6%	6.4%	4.5%	4.6%	4.5%	4.7%
Real Per Capita Income (\$96)	39,618	43,048	44,498	45,448	47,517	49,362	50,363	51,456	52,624	53,972
	4.2%	8.7%	3.4%	2.1%	4.6%	3.9%	2.0%	2.2%	2.3%	2.6%
Earnings of D.C. Residents (\$ billion)	15.63	17.91	18.54	19.04	20.26	21.66	22.85	24.04	25.34	26.71
	8.4%	14.6%	3.5%	2.7%	6.4%	6.9%	5.5%	5.2%	5.4%	5.4%
Population ('000)	570.9	569.9	567.7	560.0	554.3	554.4	558.8	562.0	565.9	568.5
	0.3%	-0.2%	-0.4%	-1.4%	-1.0%	0.0%	0.8%	0.6%	0.7%	0.5%
Households ('000)	248.1	248.9	249.1	250.1	251.7	253.3	255.3	257.0	258.8	260.7
	0.3%	0.3%	0.1%	0.4%	0.6%	0.7%	0.8%	0.7%	0.7%	0.7%
Civilian Labor Force ('000)	309.4	308.3	302.3	298.1	297.9	303.1	305.1	307.4	309.8	312.3
	1.7%	-0.4%	-2.0%	-1.4%	-0.1%	1.7%	0.6%	0.8%	0.8%	0.8%
At-Place Employment ('000)	645.1	654.2	662.1	665.9	670.5	675.9	682.7	689.3	695.2	701.2
	3.9%	1.4%	1.2%	0.6%	0.7%	0.8%	1.0%	1.0%	0.9%	0.9%
Resident Employment ('000)	291.5	289.8	282.2	277.2	274.5	278.3	280.9	283.3	285.8	287.7
	3.0%	-0.6%	-2.6%	-1.8%	-1.0%	1.4%	0.9%	0.9%	0.9%	0.7%
Unemployment Rate	5.8	6.0	6.7	7.0	7.9	8.2	8.0	7.9	7.8	7.8
Housing Starts	1,051	2,175	2,450	2,450	4,024	4,548	4,017	3,840	3,894	3,912
Housing Stock ('000)	274.8	274.4	273.0	272.3	272.8	274.6	276.8	278.4	281.2	281.2
	0.4%	-0.2%	-0.5%	-0.2%	0.2%	0.7%	0.8%	0.6%	1.0%	0.0%
Change in S & P 500 Index of Common Stock	13.1%	-12.2%	-16.0%	-12.5%	19.8%	7.5%	5.3%	2.2%	6.2%	7.4%
Interest rate on 10-year Treasury notes (%)	6.2	5.2	4.8	3.9	4.3	4.2	4.9	5.1	5.4	5.8
Washington Area Consumer Prices: % change from prior year	3.1	2.9	2.2	3.0	2.5	3.5	2.8	2.3	2.2	2.2

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 (July 2005) and Economy.com (June 2005); on forecasts of the national economy prepared by the Congressional Budget Office (January 2005) and Blue Chip Economic Indicators (July 2005); on BLS labor market information from June 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 (June 2005); and on D.C. Office of Planning information on housing construction activity (Spring 2005).