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

Natwar M. Gandhi
Chief Financial Officer

May 5, 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 Mayor Williams and Chairman Cropp:

Based on recent tax collections data, I am certifying an additional property and sales tax revenue for FY 2005-FY 2009 as follows:

$ millions	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Additional Revenue (compared to February 2005 estimate)	49.6	40.0	43.6	47.2	50.5

I recommend that these funds be carried as a "revenue enhancement" in the FY2006 budget. As I have previously indicated, the OCFO will certify a revised revenue estimate for FY 2005-FY 2009 in the summer. By then the income tax filing season will be over and my staff will have had the time to process and analyze all the income tax returns from the April 15th filings. The analysis of these returns will enable us to make a more complete assessment of revenue for FY 2005, which is the base from which the revenues for FY 2006-2009 are estimated.

In the meantime, I would like to take this opportunity to update you on the District's economic and revenue outlook. Overall, the nation's GDP, personal income, and employment for FY 2005 are growing, and most indicators are in line with the Financial Plan forecast for FY 2005. But recent developments in the economy suggest that risks to the economy are growing, which could temper growth in FY 2006. Reported real economic growth for the U.S. economy in the first Quarter of CY 2005 was less than Blue Chip forecasts. In addition, the stock market is down for the year, and interest rate movements have fluctuated over the past several months. In the District employment growth continues in the professional service and hospitality sectors, although overall job growth in D.C. moderated in February and March.

Our preliminary data on collections for April indicate that, overall, tax receipts for FY 2005 are running ahead of the February forecast.

- Property tax collections are growing by 15 percent, slightly above the February forecast of 13 percent.
- Individual income tax collections are 9 percent above collections for the same time last year compared to a forecasted growth rate of 4 percent after tax rate reductions. However, some of what looks like stronger growth when compared to last year's receipts may simply be collections coming in at a faster rate, as the Office of Tax and Revenue has seen a surge in electronic filing of tax returns this year.
- Sales tax collections are growing at a 16 percent rate compared to a 12 percent forecast. Some of this is due to unusual events - the opening of the National Museum of the American Indian; the presidential inauguration; the ACC basketball tournament; a stellar season for the Washington Wizards; and the return of baseball to the District.
- After adjusting for the tax cuts enacted last year, deed recordation and transfer tax collections continue to grow at around 20 percent and this is on top of the respective 26 and 31 percent growth of the previous year. However, this is somewhat below the February forecast.
- Finally, the corporate franchise tax and unincorporated business tax are growing 25 and 14 percent, respectively, well above the forecasted growth rates of 17 and 8 percent.

However, there are two reasons why all the extra revenues in FY 2005 will not translate into additional revenues in FY 2006. First, as I noted above, some is due to one-time events and accelerated collections from increased electronic filings.

Second, also noted above, risks to the economy in FY 2006 are growing. The 1st quarter GDP data[1] shows that real US GDP growth slowed to 3.1 percent from 3.8 percent the previous quarter. This development warrants close watching. If it persists, a slowing US economy would eventually impact the District economy primarily through its dampening effect on tourism receipts. Also, driven primarily by higher oil prices, inflation is now a real threat to the national economy. Rising inflation would raise interest rates with likely adverse impact on the District's real estate market and other sectors. Additionally, the Standard and Poor 500 is down 4 percent since the beginning of the year; stock market returns for the current year are a significant determinant of the changes to income tax revenue in the year that follows.

[1] released by the U.S. Commerce Department on April 28th

Still, I believe that much of the growth in the FY 2005 tax receipts is real and will translate into additional revenue in FY 2006. I will continue to keep you up to date with any new developments. In the meantime feel free to contact me with any questions you may have regarding this matter.

Sincerely,

Natwar M. Gandhi
Chief Financial Officer

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