

PUBLIC OVERSIGHT HEARING
ON
THE FISCAL YEAR 2007 AND 2008 SPENDING AND
PERFORMANCE BY THE OFFICE OF REVENUE
ANALYSIS (ORA) OF THE OFFICE OF THE CHIEF
FINANCIAL OFFICER (OCFO)

Before the
Committee on Finance and Revenue
Council of the District of Columbia
The Honorable Jack Evans, Chair

April 9, 2008, 10:00 a.m.
Chamber, John A. Wilson Building



Testimony of
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Good morning Chairman Evans and members of the committee, I am Robert D. Ebel, Deputy Chief Financial Officer for Revenue Analysis and the Chief Economist for the District of Columbia Government. I am pleased to appear before you today to testify on the activities of the Office of Revenue Analysis (ORA).

Mission and Activities

The mission of the Office of Revenue Analysis encompasses a wide range of fiscal and economic research as directed by the Chief Financial Officer (CFO). This includes responding, through the CFO, to requests by the Council of the District of Columbia and the Executive Office of the Mayor (EOM).

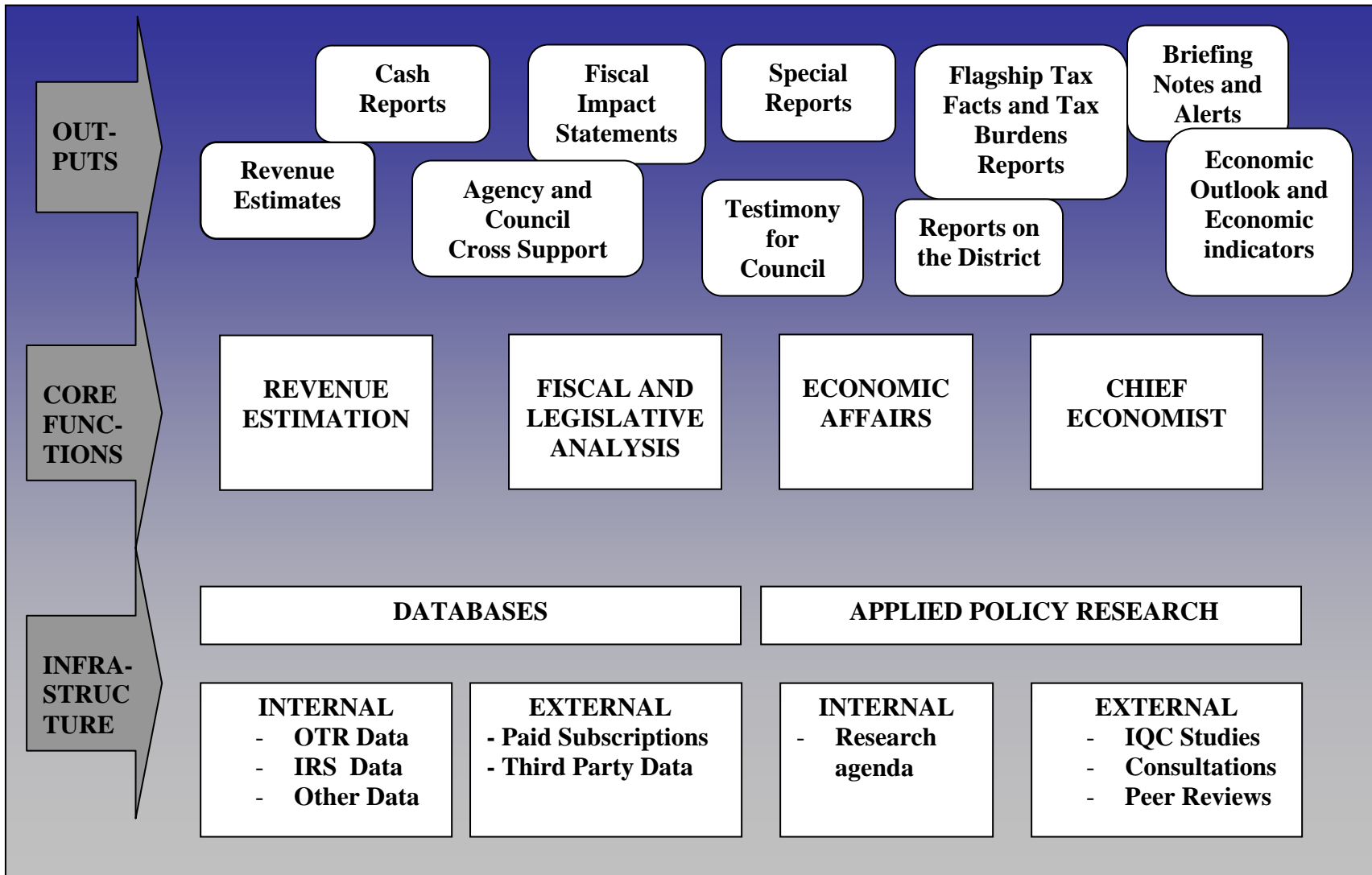
The ORA serves a dual function: to carry out the task of the analysis of the revenue system of the District of Columbia government and to serve as the research center for the purpose of monitoring the economic base. These cross-cutting functions are critical to the creation and the enhancement of an economic and fiscal knowledge base for the use of District citizens, policy makers, and fiscal practitioners alike.

Chart 1 provides a quick glance of the range of the ORA's operations. To summarize the key activities:

Preparing Fiscal Impact Statements. The District of Columbia Home Rule Act of 1973 (Pub. L no. 93-198) requires that all legislation submitted by the Council of the District of Columbia to the U.S. Congress for review prior to enactment into law be accompanied by a fiscal impact statement (FIS), which estimates the cost that will be incurred by the District of Columbia as a result of enactment of the Act in each of the first four (4) fiscal years for which the Act is in effect. These estimates are to be accompanied by a statement of the scope of the legislation and the methodology for making the estimate.

Per the *District of Columbia Financial Responsibility and Management Assistance Act of 1995* (Pub. L 104 I, Stat. 1995), one of the duties assigned to the newly created Office of the Chief Financial Officer was the preparation of fiscal impact statements. This mandate was reiterated and made permanent in the recently approved District of Columbia Omnibus Authorization Act (Pub.L.109-356, October 16, 2006).

Chart 1. ORA OPERATIONAL STRUCTURE



During FY 2007, ORA analyzed and prepared fiscal impact statements on 255 bills in addition to a host of other documents, including contracts and regulations. For 2008 (and, we project, for FY 2009) the ORA FIS workload has been on the increase as the result of Mayoral and Council initiatives and an increase in legislative activity by the Council of the District of Columbia (Council).¹ As part of this effort, substantial staff time has been devoted to public education reform, small business tax relief, economic development projects, and a wide range of revenue expenditure proposals that impact the District's Financial Plan and the District of Columbia economy. All fiscal impact statements prepared by the OCFO since May 2001 are retrievable on the OCFO Web site at www.cfo.dc.gov. Moreover, due to the establishment of a systematic system of internal controls, all staff work related to the FIS are maintained in electronic files, in addition to a pdf of the final copy forwarded to the Council. These files include not only the lists of cross-agency and OCFO contacts made relating to a given FIS, but also the detailed worksheets /spreadsheets and other background materials that were part of each FIS process.

Providing Monthly and Quarterly Reports on the Economic and Revenue Outlook with Accompanying Revenue Estimates. The OCFO is further responsible for forecasting the revenue for the District government. With respect to this activity, each February the OCFO issues the revenue estimate that is used to develop the Mayor's proposed

¹ The count of completed and signed FIS for FY 2008 to date (from Oct 1, 2007 to Feb 22, 2008) is **105**. That is about a 20 percent increase over the number produced during the same period in FY 2007 (Oct 1,2006 to Feb 28, 2007)

budget for the next fiscal year (October 1 to September 30). This estimate is then revised quarterly thereafter.²

Carrying out Special Studies. In addition to fiscal impact statement and economic and revenue outlook activities, the Office of Revenue Analysis provides a series of technical reports, many of which are subject to an extensive internal and external peer-review process prior to release and publication. These include:

- *DC Economic Indicators* – Published monthly, these provide up-to-date detail on the performance of the District of Columbia with respect to the trends of the overall economy, revenues, and the sectors of labor, industry, office space and housing. ORA is currently developing a more detailed quarterly review of D.C. Economic and Revenue Trends.
- *Tax Rates and Tax Burdens: Washington Metropolitan Area* – Published annually, this report provides not only a comparison of the statutory rates of the District of Columbia *vis-à-vis* its five neighboring jurisdictions (Alexandria and the counties of Montgomery, Prince George’s, Arlington and Fairfax), but also comparative measures of household tax burden by type of tax and different income levels.
- *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison* – Also an annual publication, the nationwide comparison report

² For a detailed discussion, see Fitzroy Lee, *Revenue Estimating Process*, Memorandum of the ORA/CFO, April 6, 2007.

provides a compendium of statutory tax rate comparisons and estimates of the household burden of major taxes by income class of the District of Columbia *vis-à-vis* the largest city in each of the other 50 states. With respect to this report permit me to note that the Summary Tables are reprinted in the *Statistical Abstract of the United States*.³

- *The Economic Report of the District of Columbia: A Fiscal Perspective* –In 2007 ORA released its first Economic Report of the District of Columbia with information on the District economy and its revenue system, including a set of Special Analyses and supplemental economic and demographic data trends.⁴ This is a statistical abstract of the District of Columbia. Text and tables are provided on topics ranging from the macroeconomic indicators of the DC economy (e.g., trends in Gross State Product, Wage and Salary Employment, Commercial Space Inventory and sales, and the median price of housing) to details on the expenditure side of the DC budget (e.g., per student public school system expenditures for DC and peer school systems, per pupil spending, number of residential dwelling units by ward) to an overview of revenue performance (e.g., the historical record on revenue collections, real property tax characteristics, business franchise profiles, and distribution of income tax filers by filer types) to what many may legitimately consider arcane (but, nonetheless

³ U.S. Department of Commerce, *Statistical Abstract of the United States: 2006*, “Estimated State and Local Taxes Paid by A Family for Selected Largest city In Each State (various years). Table 436.

⁴ Office of the Chief Financial Officer of the District of Columbia, *The Economic Report of the District of Columbia: A Fiscal Perspective*, 2007 (Kelly Dinkins, Ed.).

still important) fiscal profiles (e.g., change in number of tax filers overtime, types of households receiving the District of Columbia Earned Income Tax Credit, trends in income tax withholding and non-withholding, and data on total income earned in DC *vis-à-vis* that earned by DC residents).

- *DC Tax Facts* – This important and widely used pocket-sized reference of District of Columbia tax collections provides descriptions of all the District of Columbia revenue (tax and non tax) sources, the history of major revenue changes since 1970, filing and payment dates, and the yield of each type of revenue utilized by the District of Columbia.
- *Cash Reports* – Each month ORA publishes a report of cash collections by the District of Columbia government. The tracking of these cash flows are particularly important in order to have an ongoing check on the quarterly revenue estimates. Then, at the end of the calendar year, as part of the process of preparing the Comprehensive Annual Financial Report (CAFR), ORA coordinates with the Office of Tax and Revenue to adjust the revenue numbers to reflect the net revenue accruals that then become the final numbers reported in the CAFR.

- *Revenue Chapter for the Annual Budget Document.* The ORA is also charged with the task of submitting to the Office of Budget and Planning (OBP) the Revenue Chapter (typically Chapter 4) that is included in the Mayor’s initial budget submission to the Council and that is then further transmitted by the Council and the Mayor to the United States Congress. In its review of the *FY 2008 Proposed Budget and Financial Plan*, the Government Finance Officers Association (GFOA) commented that the Revenue chapter was “*Outstanding. Obviously this is a very complex topic. [OCFO] presented this information in a thorough and logical fashion. Needless to say it is a bit overwhelming, But [GFOA is] not sure how to simplify or lessen the amount of detail.*”
- *Tax Expenditures* – The District of Columbia Code requires the CFO to prepare a tax expenditure budget for Fiscal Year 2003 and biennially thereafter. Tax expenditures are revenue losses that arise from the provisions of the tax laws that reduce the tax liability of individuals, groups of individuals and/or institutions. The next release is set for spring 2008.

Briefing Notes – ORA has developed a series of short essays on a variety of economic and revenue topics. More than 50 briefing notes have been drafted and will be sent out for external peer review in by the end of this month. .
- *Research agenda* – ORA had developed a research agenda including longer studies of key economic and revenue issues on topics that include: enhancing the sales and income tax data bases, a study of the District’s “competitiveness” in

the regional, national and global economy, and the structure of the commercial property market.

- *Examination of the Federal-District of Columbia Fiscal Linkages.* The role that Washington plays as both a state and local government and as the national capital city requires an ongoing monitoring and financial arrangements. In the past year, the ORA has undertaken two studies. The first is focused on the extent to which the Federal preemptions restrict the District of Columbia from taxing the personal and unincorporated income non-residents and the real property owned by the Federal government. A solid grasp of the nature and scope of this topic is as perennial and it is important; and, regrettably both from the “narrow” view of DC finances and the broader issue of the robustness of the U.S. system of fiscal federalism, a responsibility of the U.S. Congress to address and to solve. Suffice it to note for purposes of this testimony that a report on the federal preemption of the DC tax base has been recently completed and is included as one of the *Briefing Notes* that are slated to go out for peer review next month.⁵

The second report is on a topic that is not only requires immediate attention of the District of Columbia Council, but also one that lies with in the District’s

⁵ Yesim Yilmaz, *Calculating the Impact of Federal Preemptions in the District’s Tax Revenue*, ORA Briefing Note, March 5, 2008.

authority to address.⁶ The issue is whether the District of Columbia should (i) conform to or (ii) “decouple” from the recently enacted *Economic Stimulus Act of 2008* (HR 5150). As is true for many other states, parts of the District’s tax code is written in a manner that adopts the federal tax code as it existed on a particular date and then automatically adopts changes to the federal tax code (“rolling” or “automatic” conformity) unless explicit local legislative action is taken to break the conformity practice (that is, action to “de-couple”). If, in the case of the *Economic Stimulus Act of 2008* the District of Columbia Council decides to fully conform to the overlapping parts of the federal and DC code that are addressed in the *Act*, the financial plan will sustain a revenue loss of \$40 m over the FY 2009-10 period.⁷ To summarize:

>Congressional Legislative Status. On February 13, 2008 President Bush signed in to law HR 5140, the *Economic Stimulus Act of 2008*. The legislation is effective as of December 31, 2007 and provides tax reduction in three areas: a tax rebate in the form of a “Basic Credit” against ones tentative federal tax liability; tow provisions relating the tax treatment of business capital. In the first case, no Council action is required to “de-couple”. In the cases of the treatment of business capital, there is an important policy decision to be taken.

⁶ The research for this topic was carried out by Dennis Cox of the ORA staff.

⁷ A number that, declines to \$21.5 million over the four year financial plan.

> The individual/family tax credit. The *Act* provides for tax rebates (credits) for individual income taxpayers, and DC personal income taxpayers have already received a notice in the mail from the IRS as to how this will directly affect them.. However, there will not be any effect on the D.C. Fisc since the federal tax reductions are to be implemented as credits against one's federal tax liability and not as change in the definition of taxable income (to which DC generally conforms to the federal code). That is, with respect to the personal income tax, DC's federal conformity is tied to the matters of filing status (*generally* taxpayers must file using the same status on the DC return as used on the federal return) and the definition of income. However, DC does not conform to federal tax credits. Thus, there is no revenue-reduction implication per the individual income tax credits.

> Incentives for Business Investment. There are, however two provisions of HR 5140 that do require the DC to determine whether or not to decouple from these changes in the federal code. And this is the source of the loss of \$40 m over the next two fiscal years.

- Bonus Depreciation. The most significant element of the bill is the “bonus depreciation” (accelerated depreciation) provision for property placed in service in CY 2008. It would allow business taxpayers to write off immediately 50 percent of their investments in depreciable assets,

rather than depreciating those investments over a span of several years. ORA estimates that this provision alone would reduce the District's revenue by accounts for much of the initial \$40 m revenue loss. The District decoupled from a similar provision in the 2001 federal tax bill.

- Section 179 expensing A related but much smaller concern is the bill's increase of the limits on the amount of property subject to the "expensing" provision of Sec. 179 of the Internal Revenue Code. The District's potential revenue loss from this change would be about \$0.5 million over four years. The District also decoupled from a similar provision of the 2001 bill.

It is our opinion that in order to maintain a balanced budget in FY 2009, the District must decouple. Accordingly, The OCFO is ready to work with this committee to propose legislation for the Budget Support Act that will enact this necessary change.

Staffing and Budget

The FY 2009 budget request for the Office of Revenue Analysis is \$3.52 million and 26 FTEs. Compared to the FY 2008 budget, it represents a 7.37 percent increase, or \$241,000 for these functions. This program includes the budget for both revenue analysis and economic development. At present, of the 25 FTEs, 19

are assigned to the Office of Revenue Analysis and 6 are attached to the Office of Economic Development Finance (Table 1).

Table 1 Office of Revenue Analysis Budget Request for FY 2009					
				Difference of FY 08-FY 09	
	FY 2007	FY 2008	FY 2009	Dollar	Percentage
Personnel Services	\$ 2,456,531	\$ 2,583,486	\$ 2,810,099	\$ 226,613	8.77%
Non-Personnel Services	\$ 682,854	\$ 692,853	\$ 707,609	\$ 14,756	2.13%
Total	\$ 3,139,385	\$ 3,276,338	\$ 3,517,708	\$ 241,370	7.37%

ORA will continue to deliver the high quality of service necessary to insure the fiscal stability of the District. We look forward to continuing our work with the Council and agencies of the District government to achieve this goal.

I thank you and the members of the committee for the opportunity to present testimony and am pleased to address questions that you may have.