PUBLIC OVERSIGHT HEARING

The Inauguration of President Barack Obama – Financial Impacts

Before the
Council of the District of Columbia
Committee on Finance and Revenue

The Honorable Jack Evans, Chairman

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Testimony of
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Introduction

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia Government. I am pleased to appear before you today to comment on the effects on the District budget of the Inauguration of President Barack Obama last month.

Mr. Chairman, before I begin I must add a personal note that I was here in the Wilson Building on Inauguration Day, and it was certainly an exciting experience for all who attended. Despite having millions of visitors in the city for the event, it was remarkable how energized the crowd was, and how cooperative and pleasant people were to one another. The District functioned at its very best, and the City Administrator, the MPD and other key agencies are to be commended for their extraordinary efforts. The District has much to be proud of.

Revenues

Permit me to offer three important comments on how to look at the Inaugural period from a revenue perspective.

First, the revenue source having the greatest impact on revenues is the general retail sales tax, including the tax on hotels and restaurants. While many residents were able to rent their homes to visitors, both Federal and DC law permit the first fourteen (14) days of any such rental income to be excluded from the personal income tax. Therefore, the relevant focus is the sales tax with its multi-rate structure that ranges from 5.75 percent on general sales to 14.5 percent on transient accommodations.

Second, street vendors throughout the city were active places for sales of all sorts of memorabilia – hats, buttons, tee shirts – but all those sales were exempt from the sales tax. Street vendors pay a vendor fee of $375 per quarter in lieu of the 5.75 percent retail sales tax on tangible personal property. In addition, there was a special Vendor Fee for January 20 – $265 for already licensed vendors and $840 for non-licensed vendors. There were a total of 1,760 spots. The special vendor fee for Inauguration Day will generate some additional revenues, but we will not see a sales tax bonanza from the vendor sales.

Third, due to administrative features of the sales tax, the OCFO will not have any actual data on January revenues until the week of March 16 at the earliest, and even then it will be preliminary. This is because most retail firms are required to pay sales taxes to the Office of Tax and Revenue by the 20th of the month following the sales.

For the first time this year, small businesses with less than $500 of monthly sales tax receipts due to the District will file quarterly. Therefore, while the bulk of January sales taxes will be paid by February 20th, all sales taxes will not be received until April.

As sales taxes are received, the revenue is recorded and processed in our System of Accounting and Reporting (SOAR). Thus, it is only when the monthly revenue “cash report” becomes available on March 16 that we will have an initial glance at the receipts generated from hotels, restaurants and bars during January. Even then, we will not have the data needed to do an in-depth analysis of the effects of the Inauguration activities separate from the taxes generated from sales not related to the Inauguration.

On this issue, let me be very clear: the cash report, even after all the reporting is complete, only gives us a sense of what happened to retail sales during the Inauguration week. Data are reported by month and do not include a day-by-day breakdown of sales tax collections. Nor is it disaggregated by tax rates. This monthly aggregated data cannot be interpreted precisely. For example, a decline in the retail portion of the sales tax due to the recent economic downturn could overshadow any inauguration impact on the hotel and restaurant sales.

The Inaugural period had two opposing impacts: while the District received many more visitors than normal, the usual daily activity in the city also came to a halt on Inauguration Day, January 20th. Many of the typical activities that would generate revenue during this time did not occur. For example, many of the 481,000 commuters who normally come into the District each day did not come to work, did not spend money for lunch or parking or other items. Logistical arrangements such as street closures or security checks reduced mobility in the city and curbed economic activity.

The location and flow of inaugural events likely directed a larger share of visitor expenditures to street vendors, who paid the upfront vendor license fee as opposed to the retail sales tax. Thus, the increased activity during this week came at the expense of usual activity. Therefore, the net impact of the inaugural events should take into consideration the reductions in the usual activity in our city.

Now I turn to hotel sales activity during the Inaugural period. Data from Smith Travel Research suggests that hotels generated sales of $60 million between January 17 and January 21, compared to $13 million in hotel sales generated during the comparable period in 2008. One might infer from this that our incremental sales tax revenue collections could be $6 to $7 million, but that would be a premature conclusion for a couple of reasons.

First, 4.45 percent of the 14.5 percent hotel tax collections go to the Washington Convention Center Authority. Second, just looking at these four or five days presents us with an erroneous view of tourism activity in the District. Inaugural travel might have shifted the timing of some tourist travel, that is, we might see fewer tourists during the rest of the winter season compared to other years. Thus the net impact over a longer period could be more subdued.

Funding and Costs

In order to support the Inauguration and prevent adverse impacts on agency local budgets, the Office of Budget and Planning established a central Inaugural account. This central Inaugural account is supported by two funding sources. The initial funding was the direct $15 million federal payment for emergency planning and security costs. In addition, in December the Mayor requested $28.3 million from the Contingency Cash Reserve to support the Metropolitan Police Department for activities related to the Inauguration. The OCFO approved this request and, working with the Office of the City Administrator, implemented a phased approach to loading the budget authority based on need and verification of expenses.

How much of the funding from the Contingency Cash Reserve will be used depends on the actual costs and the extent and timing of reimbursement from the Federal Emergency Management Agency (FEMA). FEMA funds are available because on January 13, 2009, President Bush declared an emergency in the District of Columbia and ordered federal aid to supplement the District's response.

District agencies are in the process of reconciling expenses related to inaugural activities. The OCFO is working with the Office of the City Administrator to compile records, report agency expenses and work through the FEMA reimbursement process to recoup expenses.

Conclusion

In summary, the District hosted an extraordinarily successful, historic event last month. The Inauguration ceremonies of 2009 were unlike any previous inaugurations. We saw unprecedented participation that both benefited our city in intangible ways and by providing additional sales tax revenues, and imposed costs associated with providing our visitors with exceptional service. However, it is too early to provide a definitive accounting.

This concludes my testimony, and I would be pleased to answer any questions you may have.