

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



Natwar M. Gandhi
Chief Financial Officer

April 5, 2011

The Honorable Kwame R. Brown
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, D.C. 20004-3001

Dear Chairman Brown:

I am writing in response to your letter of March 29, 2011 requesting an analysis of the economic impact on the District if the Congress fails to pass a budget that keeps the federal and District governments running through the rest of fiscal year 2011.

A preliminary estimate of the impact on the District of a federal shutdown ranges from \$1 million to \$6 million per week in lost tax revenue. The impact of a shutdown of federal and District governments depends in large measure on the conditions that would apply to such a shutdown. In particular, the size of the impact will depend on what is assumed about whether workers will be reimbursed for lost wages and/or whether some federal contracting expenditure would be permanently lost.

In the shutdowns that occurred at the end of 1995 and early 1996, about 800,000 federal employees, approximately 30% of the federal civilian workforce, was furloughed or worked without pay, according to a study by the Congressional Research Service.¹ In these instances, workers were subsequently reimbursed for lost pay and it appears that much of the work of the affected agencies (such as contracting) was subsequently accomplished.

District revenues losses would obviously be greater if employees were not reimbursed for lost wages (income taxes would go down) or if agency contracting expenditures were permanently lost. However, some losses cannot be made up—expenditures by federal workers commuting to work or by tourists who decline to visit DC if the museums are not open.

¹ Congressional Research Service: CRS Report for Congress 98-844: Shutdown of the Federal Government: Causes, Effects, and Process, Sharon S. Gressle, updated November 8, 1999.

These estimates of lost revenue per week under 3 different scenarios regarding the nature of the shutdown are based on: (1) estimates of the impact of government activities on the District's economy using industry standard economic impact model (REMI), and (2) judgment about the proportion of sales tax revenue that would be lost from tourist activity. It is assumed that the proportion of government employees affected would be similar to what occurred in the 1995-1996 experience.

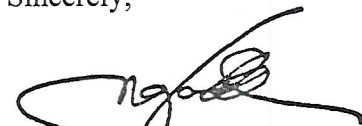
Estimated reduction per week in DC tax collections from interrupted US and DC government activities due to budget impasse: preliminary analysis of 3 alternate scenarios

| Scenario | Federal sector impact | Tourist impact | Total |
|--|-----------------------|----------------|-------------|
| Workers furloughed, lost wages reimbursed, most work gets done | \$112,000 | \$1,025,000 | \$1,137,000 |
| Workers furloughed, lost wages not reimbursed, most work gets done | \$1,932,000 | \$1,025,000 | \$2,957,000 |
| Workers furloughed, lost wages not reimbursed, work stops | \$4,523,000 | \$1,025,000 | \$5,548,000 |

Note: assumes (1) 30% of US civilian workers in the DC metro area are considered non-essential (the proportion in the 1995-1996 shutdown), (2) 30% of DC workers are considered non-essential, and (3) restaurant, hotel, and parking collections are reduced by 10% due to impact of museum closures etc. on tourist expenditures.

Should you require additional information, please do not hesitate to contact me at (202) 727-2476.

Sincerely,



Natwar M. Gandhi

cc: The Honorable Vincent C. Gray, Mayor of the District of Columbia
All Members of the Council of the District of Columbia
Allen Lew, City Administrator
Eric Goulet, Budget Director, Budget and Finance Office, Executive Office the Mayor