

PUBLIC OVERSIGHT HEARING ON

THE FISCAL YEARS 2012 AND 2013 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, Chairman

February 27, 2014
10:00 a.m.
Council Chamber, John A. Wilson Building



Testimony of
Fitzroy Lee
Deputy Chief Financial Officer
Office of Revenue Analysis

Jeffrey S. DeWitt
Chief Financial Officer
Government of the District of Columbia

Good morning Chairman Evans and members of the Committee on Finance and Revenue. I am Fitzroy Lee, Deputy Chief Financial Officer for the Office of Revenue Analysis and Chief Economist. I am pleased to appear before you today to testify on the performance of the Office of Revenue Analysis (ORA) in fiscal year 2013 and thus far in fiscal year 2014.

Mission of the Office of Revenue Analysis

ORA's mission is threefold: (1) to provide quarterly revenue estimates that set the spending ceiling for the District of Columbia's four-year budget and financial plan; (2) to provide policymakers with information to maintain budget balance by estimating the fiscal impact of legislation drafted by the Mayor and Council; and (3) to conduct a wide range of fiscal and economic research and analyses on an ongoing basis and at the request of the Mayor and Council, or as directed by the Chief Financial Officer (CFO).

Revenues and Revenue Estimates

In fiscal year 2013, ORA revised the revenue estimates three times, adding a total of \$312 million for the fiscal year and the variance of actual revenue compared to the February 2013 estimate was \$168 million or 2.7 percent of local fund revenue. Fiscal year 2013 was the year that the federal government implemented across-the-board spending reductions, the so-called federal sequestration. Although the federal sequestration accelerated the rate of federal budget cuts, the fact is that the federal

government entered a period of austerity two years ago, and has been shedding jobs at a fairly steady pace since. At the end of 2013, there were over 6,000 less federal jobs in the District than a year earlier. District revenue grew 5.4 percent in fiscal year 2013, in spite of the federal budget cuts. Still, this was a drastic slowdown from the previous fiscal year, when revenue grew almost 11 percent. District revenue grew despite the federal spending cuts because of two positive trends that are currently reshaping the District's economic and financial landscape: 1) a growing population; and 2) a growing and diversifying private sector.

According to the US Census Bureau, DC's population on July 1, 2013 was about 647,000, 13,000 (or 2.1 percent) more than a year earlier. This is the third consecutive year of population growth of 2 percent or more. Although most of the recent population growth was from migration by younger adults, about a third of the recent increase was natural increase (that is, the net of births over deaths). This means that families with young children are now choosing to stay in the District, which augurs well for the sustainability of the recent population surge. Population growth has been a major factor in increasing the District's income and sales tax bases, and is also a major driving force behind rising home values. The growing population has also increased the District's share of income earned in the District from a third to 45 percent over the last several years.

A growing and diversifying private sector is another bright spot in the latest District's economic outlook. The latest jobs report shows that the private sector added about 5,600 jobs in December compared to a year ago, largely offsetting the federal jobs decline. The food service sector, with a gain of almost 4,000 jobs, added the most. The second largest jobs gain was in the professional and technical category, which added about 1,700 jobs in the same period. This category includes

Economic and Fiscal Outlook

The recent budget deal reduced uncertainty and authorized more spending and the latest revenue forecast anticipates continued strong growth in the District of Columbia's population and private sector. But the federal budget caps and other efforts to constrain federal spending are likely to continue dragging down DC employment and income growth.

Fiscal Impact Statements (FIS)

Fiscal impact statements are important tools in maintaining budget balance—these analyses ensure that no new legislation is put in place without the necessary funding. Correctly determining the potential cost of proposed legislation is crucial to protecting the city from additional financial risks. During fiscal year 2013 the FIS team produced 328 fiscal impact statements. Additionally, the FIS team worked with the Tax Revision Commission to prepare background papers on the fiscal structure

of the District of Columbia, and the history of the economic development policies in the District of Columbia.

The FIS team will continue to carefully research all legislative proposals and scrutinize all input from all agencies of the DC government. They will also continue to work very closely with District government agencies and the Council staff.

Research and Analyses

In addition to the revenue estimates and fiscal impact statements, ORA provides District stakeholders with a number of fiscal and economic reports, all of which are subject to an extensive internal and external peer-review process prior to release and publication. These include:

- *DC Economic Indicators*, which is published monthly and provides a two-page “at a glance” overview of four key sectors of the DC economy: (i) “labor and industry” information on District employment trends, along with the composition of resident employment by industry; (ii) “revenue” collections by major tax types; (iii) “DC and US economic information,” including DC personal income, inflation, and unemployment rate trends; and (iv), “real estate” information on home sales volume and prices and commercial office vacancy rates and inventory.

- A *Review of District of Columbia Economic and Revenue Trends*, which is published monthly and provides a wealth of information on all aspects of the DC economy, including employment, wages, housing, commercial office space, and the hospitality and retail industries.
- *Tax Rates and Tax Burdens: Washington Metropolitan Area*, which is published annually and provides not only a comparison of the District's statutory rates with 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 for different income levels.
- *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison*, an annual publication that provides a compendium of statutory tax rates and estimates of the household burden of major taxes by income class in the District compared with the largest city in each of the 50 states. The summary table from this report is generally reproduced in the annual *Statistical Abstract of the United States*.
- *The Economic Report of the District of Columbia (Data Book)*, an annual publication that provides detailed data on the District's economy and its revenue system.
- *DC Tax Facts*, an important and widely used pocket-sized reference of District tax collections and describes all of the District's revenue (tax and

non-tax) sources, the history of major revenue changes since 1970, filing and payment dates, and the yield of each revenue source utilized by the District.

- ORA also publishes a monthly table of *Cash Collections*, as well as a *Cash Collections Narrative Report* that tracks cash collections by source. This report is critical in monitoring the performance of District revenue collections relative to the revenue estimate.
- *Tax Expenditures* is a biennial report that catalogues and quantifies revenue losses from federal and District tax provisions that grant special relief designed to encourage certain kinds of taxpayer behavior or to aid taxpayers in special circumstances.
- Periodically, ORA produces results of its other research findings that are then shared with the Mayor and the Council, as well as the public. During fiscal year 2012, *Special Purpose Revenues* and *Non-Tax Revenues* were two of such reports published by ORA.
- ORA has been instrumental in providing the newly created *Tax Revision Commission* with results of its findings and analysis of alternative tax policies, based on the Commission's requests.
- Each year the ORA is responsible for the preparation of the Revenue chapter that is included in both the Mayor's *Proposed Budget and Financial Plan*, and then, with Council revisions, the Executive Summary of the *Budget and Financial Plan* that is submitted to Congress (June). The Revenue chapter

begins with a comprehensive review of the US and District's economic outlook and then proceeds to present in great detail information on the revenue flows by revenue source over the financial plan period. The revenue presentations include detailed as well as summary tables of the baseline revenue estimate and policy proposals included in the budget.

Conclusion

Finally, I want to thank the entire ORA team for their hard work and professionalism during the course of the year. I would especially like to thank the Directors for the leadership and teamwork they displayed, not only within ORA, but also in working with other agencies within the Office of the Chief Financial Officer as well as with the Executive Office of the Mayor and the D.C. Council. This concludes my testimony. I would like to thank you for the opportunity to testify before you today. I am pleased to respond to any questions that you may have.

Chart 1

