



# September 2023 Revenue Estimate

September 30, 2023

# Economic outlook has improved but there are headwinds

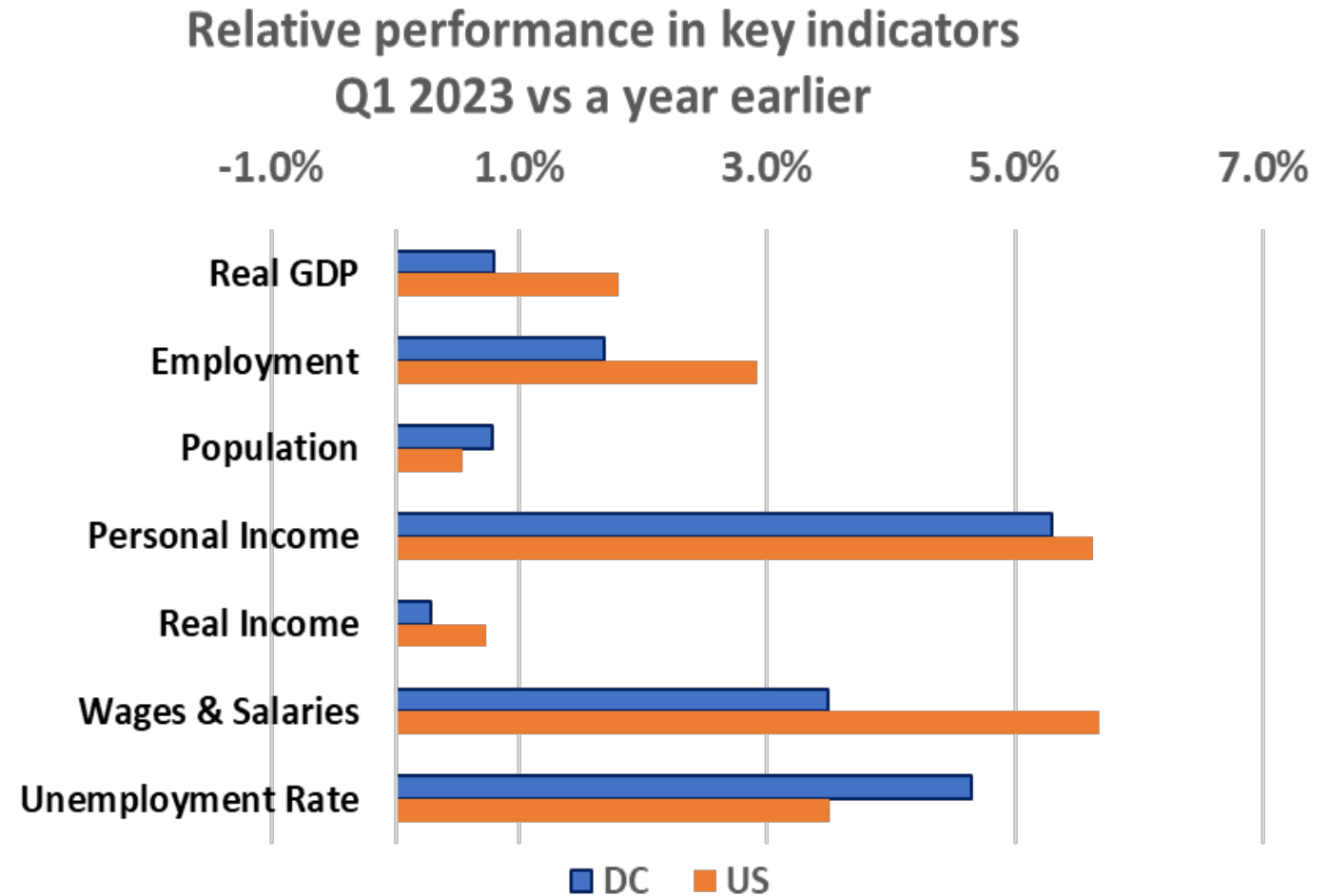


- Inflation has moderated but is still elevated relative to the Fed's target. Although interest rates have been unchanged since July 2023, the Fed remains committed to slowing the economy to reduce inflation.
- The latest economic data on jobs and economic growth indicate surprising resiliency in the economy and lower the risk of recession in the near term.
- DC GSP (Gross State Product), adjusted for inflation, for FY 2023 and FY 2024 is revised upward by 1.2 and 1.4 percentage points to 1.2 and 1.6 percent, respectively, compared to the February forecast, but out-years are revised slightly downward.
- DC personal income, adjusted for inflation, is also revised upward for 2023 and the first half of 2024
- The forecast for population and the number of households in DC have been revised upward following the February 2023 Bureau of Labor Statistics upward revision to the District's civilian labor force and resident employment.
- High mortgage rates continue to slow real estate market activity, resulting in a significant reduction in the market value of commercial properties and the number of real estate transactions.
- DC commercial office vacancy rates are now approximately 16 percent and are projected by CoStar to reach 25 percent by the end of the financial plan period FY 2027.

# DC economic performance lags US on key indicators



- DC's economy continues to consistently underperform the national economy across nearly all indicators.
- The labor market continues to add jobs, but DC's employment level remains below pre-pandemic levels and job growth has trailed the regional and national averages.
- Unemployment in the District averaged 5.0% during the 2nd quarter of 2023, which is higher than the metro area's rate of 2.7% and the nation's rate of 3.6%.



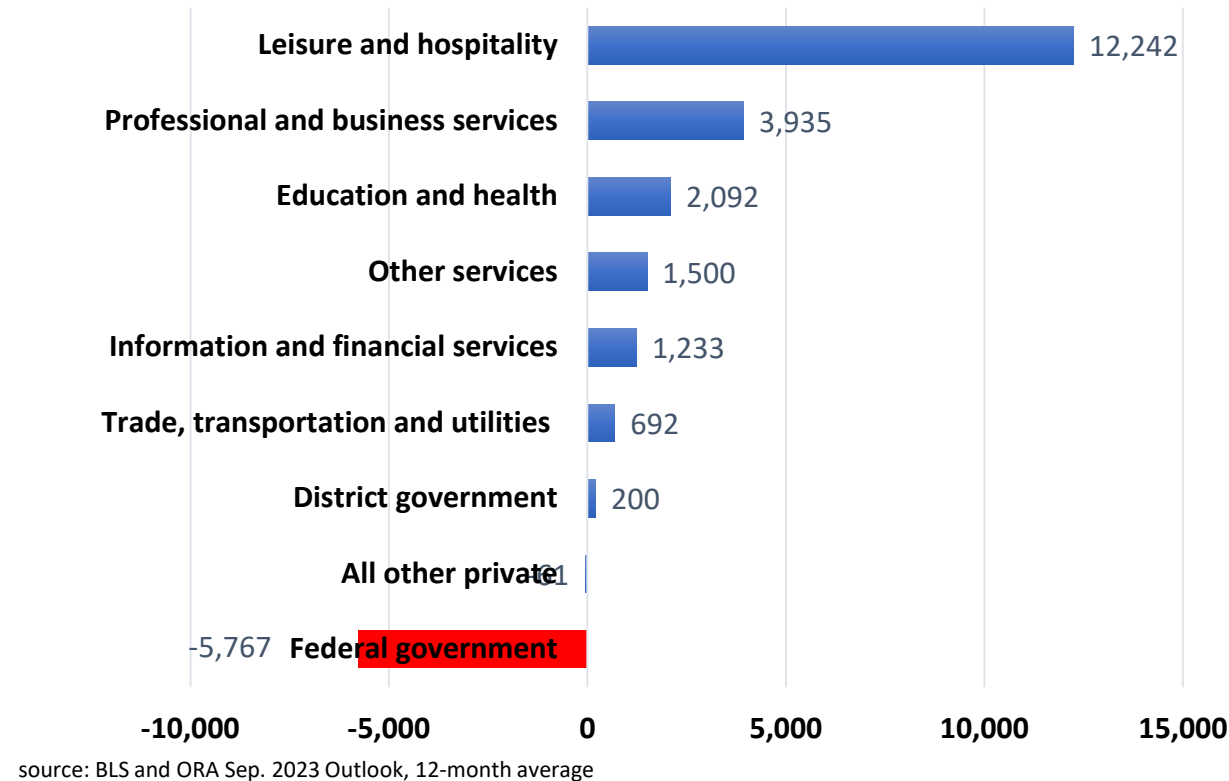
\*Unemployment rate in levels as of Q2 2023

# DC Labor market and employment outlook



- DC's leisure and hospitality sector continued its strong recovery adding a notable 12,242 jobs since the previous year.
- The professional and business services sector surpassed its early 2020 job levels by the 2nd quarter of 2023.
- Federal jobs declined below pre-pandemic levels, losing about 5,767 jobs between the 2<sup>nd</sup> quarter of 2022 and 2023.
- Since the last forecast, DC's labor force increased by 2,933 individuals and resident employment increased by 1,527.
- The unemployment rate rose slightly from 4.7 percent in Feb 2023 to 5.0 in July 2023 as more residents joined the labor force to look for jobs.

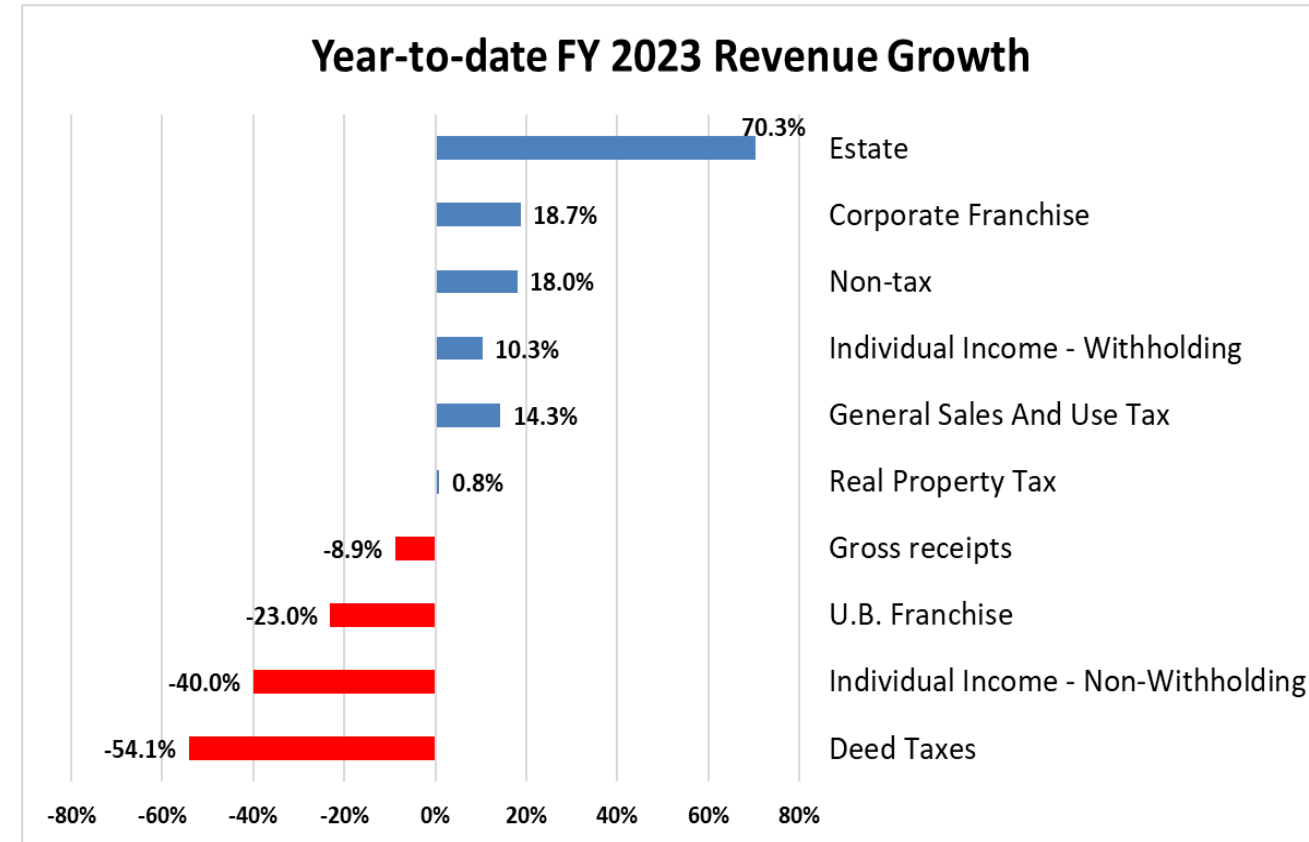
**Change in wage and salary jobs in DC by sector: Q2 2023 vs Q2 2022**



# FY 2023 year-to-date revenue through August



- General fund revenue year-to-date (YTD) collections are currently up 2 percent relative to FY 2022.
- Stronger sales, corporation franchise, and non-tax receipts more than offset declines in deed, non-withholding, and gross receipts tax collections.
- Stronger growth in sales tax receipts benefited from the recovery in leisure and hospitality as well as from inflation.
- Interest income collections from investible cash balances rose to almost \$200M, more than 7 times the FY 2022 level.
- Estate tax receipts nearly doubled their FY 2022 level.
- Corporate franchise receipts benefited from increased business investment and inflation.
- Deed and UB tax revenues decreased due to increased mortgage interest rates and uncertainty in the commercial real estate market.



# FY 2023 - FY 2027 Revenue Forecast



## September 2023 revenue estimate compared to previous estimate

	Actual		Estimated		Projected	
Local Source, General Fund Revenue Estimate (\$M)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
<i>February 2023 Revenue Estimate</i>	9,886.8	9,712.0	9,688.2	9,869.5	10,178.7	10,505.9
<i>September Revision to the Estimate</i>		178.8	168.8	88.9	-7.1	-55.1
<i>Enacted Policy Proposals</i>		7.0	52.7	231.6	221.8	216.4
<b><i>September 2023 Revenue Estimate</i></b>	<b>9,886.8</b>	<b>9,897.8</b>	<b>9,909.7</b>	<b>10,190.0</b>	<b>10,393.4</b>	<b>10,667.3</b>
<b>Revenue Change From Previous Year</b>						
Amount		11.1	11.8	280.3	203.4	273.9
Year-Over-Year Percent Change	13.3%	0.1%	0.1%	2.8%	2.0%	2.6%



# Change from February 2023 estimate (\$'000)

REVENUE CATEGORY	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
PROPERTY	45,307	8,626	(7,898)	(39,335)	(63,294)
SALES & EXCISE	81,853	72,151	47,226	44,123	51,866
INCOME	53,733	62,685	41,815	16,413	(6,861)
GROSS RECEIPTS	(10,106)	(12,744)	(15,851)	(18,131)	(21,482)
DEED AND ESTATE	(79,613)	(18,225)	98	99	100
<b>GROSS TAX</b>	<b>91,175</b>	<b>112,492</b>	<b>65,391</b>	<b>3,169</b>	<b>(39,671)</b>
NONTAX	94,477	73,263	36,621	1,257	(4,762)
MISCELLANEOUS	93,678	68,838	34,420	709	(3,770)
REVISION (GROSS)	185,652	185,755	102,012	4,426	(44,433)
DEDICATED TAX REVISION	(6,827)	(16,979)	(13,145)	(11,547)	10,658
<b>LOCAL FUND REVISION</b>	<b>178,826</b>	<b>168,777</b>	<b>88,867</b>	<b>(7,121)</b>	<b>(55,091)</b>

- In FY 2023 and FY 2024, higher sales, estate and income tax (individual and corporate franchise) revenue, as well as interest income revenue, more than offset lower revenue from deed, UB and gross receipts taxes.
- In the out-years, slower economic growth and a deteriorating real estate market mitigate the impact of the near-term strength.

# Risks to Outlook



## National:

- Federal government shutdown
- Risk of U.S. recession remains
- Labor union strikes
- Geopolitical: escalation of war in Ukraine and tensions with China

## District:

- Remote work expands beyond current levels
- Federal employment continues to decline
- Population recovery stalls
- Potential reduction in Metro service
- Policy riders included in federal spending bill



# Additional Update



- BSA Provision Triggered
  - Temporary minimum benefit to SNAP recipients: \$39.6 million
  - Cash assistance to excluded workers: \$20 million

# Questions?