

---

# Revised Baseline Estimates of D.C. Government Revenues

November 5, 2019

A Report by District Economics Group for the D.C. Auditor



November 5, 2020

The Hon. Phil Mendelson  
Chairman  
Council of the District of Columbia  
1350 Pennsylvania Avenue N.W.  
Washington, D.C. 20004

Dear Chairman Mendelson and Councilmembers:

A year ago the Office of the D.C. Auditor published a [revenue forecasting model](#) to serve as an independent assessment of the revenue estimates provided by the Office of the Chief Financial Officer (OCFO) when the District of Columbia issues general obligation bonds. The D.C. Official Code, § 1-206.03 (b)(1) requires that the D.C. Auditor certify the accuracy of the OCFO estimate as follows:

*No general obligation bonds... or Treasury capital project loans shall be issued during any fiscal year in an amount which would cause the amount of principal and interest required to be paid both serially and into a sinking fund in any fiscal year on the aggregate amounts of all outstanding general obligation bonds and such Treasury loans, to exceed 17% of the District revenues... which the Mayor estimates, **and the District of Columbia Auditor certifies**, will be credited to the District during the fiscal year in which the bonds will be issued...*

Today we share an update to the forecasting model developed for ODCA by the District Economics Group (DEG) titled **Revised Baseline Estimates of D.C. Government Revenues for the Office of the District of Columbia Auditor**. We will continue to use the model for revenue certifications in the coming year and appreciate the continuing assistance of Chief Financial Officer Jeffrey S. DeWitt and Deputy CFO and Chief Economist Fitzroy Lee in providing DEG with current and historical revenue data.

The forecast model update adjusts the revenue baseline after incorporating information from the OCFO's September 2020 Revenue Estimates. The DEG estimates are somewhat higher than that of the OCFO with much of the difference attributable to the forecast of sales and use tax revenues for FY 2021.

I hope this update and our ongoing independent assessment of the District's revenues will be of value to the D.C. Council as well as to the OCFO and others in the executive branch, and to District residents.

Sincerely yours,



Kathleen Patterson  
District of Columbia Auditor

# **Revised Baseline Estimates of D.C. Government Revenues For the Office of the District of Columbia Auditor**

---

October 15, 2020

Washington, D.C.

## Introduction

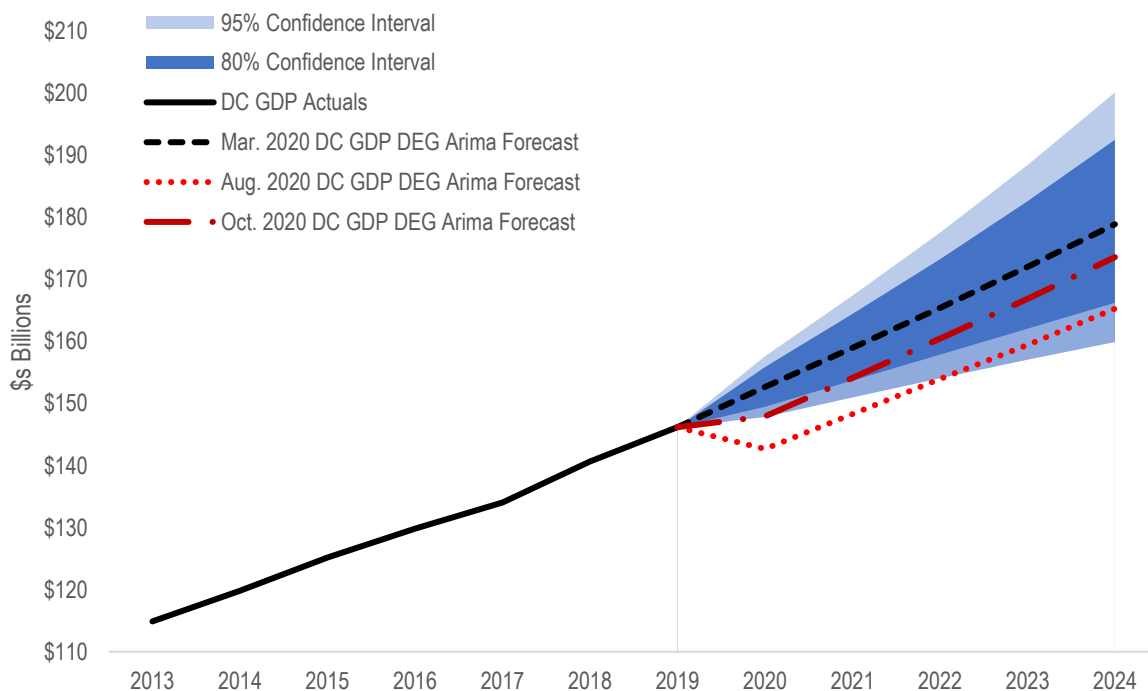
In August, District Economics Group (DEG) provided ODCA with an update on our model forecasts for the District's FY 2020 revenues and our thoughts on the COVID-19 pandemic's impact. After monitoring for changes in national and D.C. GDP estimates and for new quarterly revenue releases from the OCFO, DEG has further revised its model to reflect the most recent data available. This report compares DEG's FY 2020 non-dedicated Local Fund Revenue estimate with that of the OCFO, and is updated to account for the revenue and growth impacts of the District's pandemic-induced shutdown.

## Changes to the economic forecast

DEG's October 2020 forecast of D.C. Gross Domestic Product (GDP) for FY 2020 is \$147.95 billion compared with our August 2020 forecast of \$142.69 billion, \$5.26 billion or 3.69% greater. In our model, this increase is the direct result of an upward revision to the D.C. GDP growth rate in the OCFO's September 2020 Revenue Estimates release. While the OCFO's April 2020 release, which was incorporated into DEG's August 2020 estimate, forecasted an annual growth rate for D.C. GDP of -2.4% for FY 2020, the more recent September release forecasts the same rate at +1.2%.

Below is a chart showing how the October 2020 DEG forecast of D.C. GDP (bold maroon dashed/dotted line) is above the August 2020 DEG forecast (red dotted line), reflecting this upward revision to D.C. GDP growth, but still below the March 2020 DEG forecast (black dashed line) which was created before District's sharp economic contractions in April, May, and June could be incorporated.

Chart 1. Revised DC GDP Forecast CY 2020-2024, as of August 25, 2020



## Changes to the revenue forecast

The table below shows the October 2020 DEG forecasted revenue streams (orange shaded columns) in comparison to DEG's prior estimates from August 2020 (gray shaded columns). The forecasts are *gross* revenue streams *before* the dedicated revenues are netted out and the white columns show the change in DEG's forecasts from August 2020 to October 2020.

DEG's August 2020 estimates were prepared using data from the OCFO's April 2020 release which, early in the shutdown, forecasted large drops in D.C. revenues for FY 2020 totaling \$722 million.<sup>1</sup> In contrast, our October estimates are prepared using data from the OCFO's September 2020 release which details an upward revision of \$222 million, largely attributed to income tax and non-tax revenue surprises. In essence, the forecasted drops in revenue did occur, but not to the full extent expected.

Table 1 reflects this upward revision to the District's FY 2020 revenues as well as a more optimistic growth outlook, with our October 2020 estimates almost uniformly higher than our August 2020 estimates.<sup>2</sup>

**Table 1. Revised Revenue Stream Forecasts as of October 08, 2020 (\$ Thousands)**

| Year | Income tax revenue |                    |            | Property tax revenue   |                    |            | Sales and excise tax revenue                 |                    |            |
|------|--------------------|--------------------|------------|------------------------|--------------------|------------|----------------------------------------------|--------------------|------------|
|      | Aug-20             | Oct-20             | Difference | Aug-20                 | Oct-20             | Difference | Aug-20                                       | Oct-20             | Difference |
| 2019 | <b>\$2,941,982</b> | <b>\$2,941,982</b> | <b>\$0</b> | <b>\$2,827,757</b>     | <b>\$2,827,757</b> | <b>\$0</b> | <b>\$1,707,223</b>                           | <b>\$1,707,223</b> | <b>\$0</b> |
| 2020 | \$2,858,248        | \$2,983,849        | \$125,601  | \$2,739,579            | \$2,871,846        | \$132,267  | \$1,663,202                                  | \$1,729,233        | \$66,031   |
| 2021 | \$2,991,417        | \$3,131,228        | \$139,811  | \$2,879,816            | \$3,027,046        | \$147,230  | \$1,733,212                                  | \$1,806,713        | \$73,501   |
| 2022 | \$3,126,837        | \$3,282,969        | \$156,132  | \$3,022,422            | \$3,186,839        | \$164,418  | \$1,804,404                                  | \$1,886,486        | \$82,081   |
| 2023 | \$3,257,504        | \$3,434,937        | \$177,433  | \$3,160,023            | \$3,346,872        | \$186,848  | \$1,873,098                                  | \$1,966,378        | \$93,279   |
| 2024 | \$3,397,557        | \$3,595,824        | \$198,267  | \$3,307,508            | \$3,516,297        | \$208,788  | \$1,946,727                                  | \$2,050,959        | \$104,232  |
| Year | Other tax revenue  |                    |            | Gross receipts revenue |                    |            | Nontax, lottery, and special purpose revenue |                    |            |
|      | Aug-20             | Oct-20             | Difference | Aug-20                 | Oct-20             | Difference | Aug-20                                       | Oct-20             | Difference |
| 2019 | <b>\$583,377</b>   | <b>\$583,377</b>   | <b>\$0</b> | <b>\$395,068</b>       | <b>\$395,068</b>   | <b>\$0</b> | <b>\$1,028,689</b>                           | <b>\$1,028,689</b> | <b>\$0</b> |
| 2020 | \$441,179          | \$546,511          | \$105,332  | \$389,623              | \$389,623          | \$0        | \$999,223                                    | \$1,043,423        | \$44,200   |
| 2021 | \$480,881          | \$598,129          | \$117,248  | \$404,234              | \$404,234          | \$0        | \$1,046,087                                  | \$1,095,287        | \$49,200   |
| 2022 | \$522,469          | \$653,405          | \$130,936  | \$407,477              | \$407,477          | \$0        | \$1,093,742                                  | \$1,148,686        | \$54,944   |
| 2023 | \$560,073          | \$708,872          | \$148,799  | \$417,163              | \$417,163          | \$0        | \$1,139,724                                  | \$1,202,164        | \$62,440   |
| 2024 | \$605,548          | \$771,819          | \$166,271  | \$423,198              | \$423,198          | \$0        | \$1,189,010                                  | \$1,258,782        | \$69,771   |

Source: Office of the Chief Financial Officer; DEG estimates based upon Office of the Chief Financial Officer data.

(\*) Bolded values indicate actual FY 2019 revenues and not forecasted revenues.

<sup>1</sup> See the September 2020 Revenue Estimates released on September 30 by the Office of the Chief Financial Officer of the Government of the District of Columbia.

<https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/Revenue%20Estimate%20Letter%20093020.pdf>

<sup>2</sup> In comparison to DEG's March 2020 forecasts, DEG's October 2020 forecasts for FY 2020 are 3.54% lower for income tax revenue, 3.44% lower for property tax revenue, and 2.73% lower for sales and excise tax revenue. Our August 2020 report forecasted these declines to be much larger at 7.60%, 7.89%, and 6.44%, respectively. The October forecast reflects a more optimistic outlook for the District's economy during the pandemic.

Using these revised forecasted revenue streams and netting out any dedicated revenues from the gross revenues, an updated segment of the D.C. Auditor Certification Table is shown below. It provides DEG's October estimate of the District's Total Local Source, General Fund Revenue at approximately \$8.37 billion.

**Hypothetical Figure 1. FY 2020 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) by DEG dated Oct 08, 2020 (\$ Thousands)**

| Revenue Source                                           | DEG's 2020 Total Local Source, General Fund Revenue Estimate (Net of Dedicated Taxes) | FY 2020 Tax Changes Full-Year General Fund Revenue Effect | Total              |
|----------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------|--------------------|
| Property Taxes                                           | \$2,820,920                                                                           | (\$918)                                                   | \$2,820,002        |
| Sales Taxes                                              | \$1,323,858                                                                           | \$9,171                                                   | \$1,333,029        |
| Income Taxes                                             | \$2,983,849                                                                           | \$277                                                     | \$2,984,126        |
| Gross Receipts Taxes                                     | \$263,480                                                                             | -                                                         | \$263,480          |
| Other Taxes                                              | \$478,037                                                                             | \$1,813                                                   | \$479,850          |
| Total Taxes                                              | \$7,870,144                                                                           | \$10,343                                                  | \$7,880,487        |
| Total Non-Tax and Lottery Revenues                       | \$485,349                                                                             |                                                           | \$485,349          |
| <b>Total Local Source, General Fund Revenue Estimate</b> | <b>\$8,355,493</b>                                                                    |                                                           | <b>\$8,365,836</b> |

#### Issues with forecast revision

DEG sourced revenue collections data from the OCFO's September 2020 Quarterly Revenue Report, which revised its FY 2020 revenue estimate upward by \$222 million after initially decreasing it by \$722 million in its April 2020 Quarterly Revenue report. This higher FY 2020 revenue largely reflects the unprecedented level of federal relief provided earlier this year in the form of (1) small business loans which maintained wages and retained jobs, (2) one-time relief checks for low and moderate income District residents, and (3) expanded unemployment compensation. These three components prevented the District's economy from declining as much as the OCFO had forecasted in April, supporting the District through increased income tax revenue collections. In addition, the OCFO's report indicates that "extraordinary monetary policy actions" taken by the Federal Reserve boosted the stock market and contributed to increased revenue from capital gains and business income.

In mid-March, the District government closed schools, stores, hotels, restaurants, and other workplaces, and placed restrictions on travel and social gatherings to control the virus's spread. This unprecedented shutdown and the rapidly changing information about the pandemic created a high degree of uncertainty. While some of that uncertainty has since dissipated with more information now available about the severity of the pandemic and its impact on the economy, the continued spread of the virus requires ongoing restrictions. Any level of uncertainty renders modeling the District's path to recovery difficult. As the OCFO notes in its September 2020 report, "we cannot assume, given the extensive disruptions to the economy, that things will quickly return to pre-pandemic levels."

## Conclusion

DEG's estimate for the District's FY 2020 non-dedicated Local Fund Revenue is \$8,365,836,000, or 104.83% of the OCFO's estimate of \$7,980,461,000. Almost the entire \$385 million difference is due to the sales and use tax forecast of \$1,729 million compared to the OCFO forecast of \$1,342 million. We will be closely watching this quarter's sales and use taxes and adjust accordingly. The DEG and OCFO forecasts for the other revenue sources are extremely close. Finally, in our March 23 revenue certification analysis to the D.C. Auditor, we estimated FY 2020 non-dedicated Local Fund Revenue as \$8,425,472,000, which is slightly above our current FY 2020 forecast of \$8,365,836,000.

## ***District Economics Group***

### **Michael Udell**

Managing Member, District Economics Group, LLC

Cell: (408) 562 6479     [michael.udell@districteconomics.com](mailto:michael.udell@districteconomics.com)

### **Matthew Fellows**

Senior Data Analytics Manager, District Economics Group, LLC

Cell: (603) 233 2189     [matthew.fellows@districteconomics.com](mailto:matthew.fellows@districteconomics.com)

### **Danielle Sockin**

Senior Analyst, District Economics Group, LLC

Cell: (845) 709 5361     [danielle.sockin@districteconomics.com](mailto:danielle.sockin@districteconomics.com)

### **District Economics Group**

[www.districteconomics.com](http://www.districteconomics.com)

## About ODCA

---

The mission of the Office of the District of Columbia Auditor (ODCA) is to support the Council of the District of Columbia by making sound recommendations that improve the effectiveness, efficiency, and accountability of the District government.

To fulfill our mission, we conduct performance audits, non-audit reviews, and revenue certifications. The residents of the District of Columbia are one of our primary customers and we strive to keep the residents of the District of Columbia informed on how their government is operating and how their tax money is being spent.

**Office of the District of Columbia Auditor**  
**717 14th Street N.W.**  
**Suite 900**  
**Washington, DC 20005**

**Call us:** 202-727-3600  
**Email us:** [odca.mail@dc.gov](mailto:odca.mail@dc.gov)  
**Tweet us:** [https://twitter.com/ODCA\\_DC](https://twitter.com/ODCA_DC)  
**Visit us:** [www.dcauditor.org](http://www.dcauditor.org)



Information presented here is the intellectual property of the Office of the District of Columbia Auditor and is copyright protected. We invite the sharing of this report, but ask that you credit ODCA with authorship when any information, findings, or recommendations are used. Thank you.

