D.C. Tax Revision Commission

MEETING MINUTES

Subject: D.C. Tax Revision Commission Meeting

Date: Jan. 7, 2013

Time: 3:00 p.m. to 6:00 p.m.

Location: Room 412, John A. Wilson Building, 1350 Pennsylvania Avenue, NW, Washington, D.C. 20004

Members Present:

Anthony Williams
David Brunori
Catherine Collins
Mark Ein
Tracy Gordon
Teresa Hinze
Fizroy Lee
Ed Lazere
Pauline Schneider
Stefan Tucker

Invited Speakers:

Stephen Fuller, Director, Center for Regional Analysis, School of Public Policy George Mason University

Carol O'Cleireacain

Jason Juffras, Fiscal Analyst, Office of Revenue Analysis

Staff:

Kevin Clinton
Mike Bell
Steven Rosenthal
Richard C. Auxier
Rick Rybeck
Ashley Lee

I. Call to Order (Commission Chairman)

Mr. Anthony Williams, Chairman of the D.C. Tax Revision Commission (the "Commission"), called the meeting to order. Mr. Williams welcomed the commissioners, invited speakers and public to the January meeting of the Commission and wished all in attendance a happy new year. Mr. Williams also briefly introduced the three visiting speakers, noting that all three were asked to present background information that is central to informing the Commission as it goes about its work of analyzing and making recommendations for improving the District's tax code.

II. Approval of Minutes

The minutes from the Nov. 19, 2012 Commission meeting and from the Dec. 3, 2012 public hearing were approved without amendment.

III. Presentation: Regional Economic Trends in the Washington, D.C. Region

Mr. Stephen Fuller made the first presentation to the Commission, presenting his research on economic trends in the D.C. metro region. Entitled "The Washington Area Economy: Sub-State Patterns of Performance," his presentation's overarching theme was that after nearly two decades of consistently adding high-paying jobs, the region was set for an increase in low-wage jobs over the next few years. Mr. Fuller said a substantial driver of this reversal is the large number of residents set to retire in the next few years. These senior and well-paid employees will mostly be replaced by younger workers earning lower wages. Mr. Fuller noted that this reversal of economic trends will result in "income compression" within the region.

Looking at the past few years of economic data, Mr. Fuller highlighted the region's dependency on the national government for growth. The D.C. region was the fastest growing metro area between 2007 and 2010, buoyed by federal spending undertaken during the recession, but as federal spending was cut over the past year the D.C. metro area fell to the bottom third in growth. Mr. Fuller advised that the region's economy must become far more diversified if it hopes to grow in the coming decades. He also made note of how certain industries have fared over the past decade, and specifically how job growth in the region has shifted in the past 10 years from professional and business services to education and health services. He also predicted that housing—mostly in the suburbs—will emerge as a large driver of future regional economic growth.

After completing his presentation Mr. Fuller took questions from the Commission. Mr. Williams asked if anecdotes about “reverse commuting” were evident in Mr. Fuller’s research. Mr. Fuller responded that indeed a good number of commuters now travel to offices located in the suburbs, and that this includes a lot of the District’s new residents—who choose to live inside the city even though they do not work there. Mr. Mark Ein asked if there are any specific taxes the Commission should address if it wishes to engender greater economic growth in the District. Mr. Fuller responded by noting that the work he conducted for the 1970s tax revision commission concluded that taxes were not the No. 1 driver of business decisions. Instead, he found that markets, and more specifically people, are what drive business decisions. Therefore, since more people live in the surrounding suburbs than D.C. more service providers (doctors, lawyers, retail, lawn care, etc.) will follow them. After a follow-up question, Mr. Fuller noted that D.C. has done quite well economically given its small size—and that its positive population trends continue to look promising—but that the city should be mindful of assisting its service sector so that residents are not forced to call on service providers located outside of the city.

IV. Presentation: National, State & Local Trends in Fiscal Policy

Ms. Carol O’Cleireacain next presented data and analysis of budget problems facing jurisdictions across the nation. Ms. O’Cleireacain’s presentation was based on findings from the State Budget Crisis Task Force, a commission (on which she served) that aimed to educate both policymakers and the public about the structural deficits facing state and local governments. Ms. O’Cleireacain’s presentation opened and focused on a key theme: revenues—severely depleted in the wake of the Great Recession—are not keeping up with spending (specifically Medicaid and pension liabilities). On the revenue side, she emphasized the growing reliance of state governments on income taxes and the inherent volatility that this introduces—she further singled out the volatility of revenue from capital gains taxes. O’Cleireacain also highlighted the problems related to a reduced sales tax base (as more transactions are for services rather than goods) and the lack of revenue—given government inaction--coming from motor fuel taxes.

Looking at how the District falls into this equation, O’Cleireacain noted that as a result of the Control Board the city has already implemented many of the budgeting policy the task force has advised other states to implement. Furthermore, a large share of the District’s Medicaid and pension liabilities are funded by the federal government, mitigating some of its future spending pressures. In contrast, the city’s strong ties to the federal government also leave the District vulnerable given anticipated cutbacks in national spending.

Ms. O’Cleireacain then took questions from the commissioners. Asked by Ms. Trace Gordon for recommendations regarding reserve funds, she endorsed not fully budgeting all income tax revenue and leaving the remaining balance for future economic swings. Mr. David Brunori asked if there was any hope of expanding the sales tax to services given the political pressure sure to result from such a proposal. Ms. O'Cleireacain stated the revenue would most likely never appear. Mr. Stefan Tucker asked about the idea of congestion fees, which lead Ms. O'Cleireacain—after a note about parking fees—to more generally advocate that jurisdictions do all they can to harness technology in its creation ("think outside the box") and administration of taxes and fees.

V. Presentation: Briefing on the D.C. Tax Expenditure Report

Mr. Jason Juffras briefed the Commission on tax expenditures during the third and final presentation of the meeting. In addition to presenting a wealth of information from the city's venerated "Tax Expenditures Report," Mr. Juffras also provided the commissioners with a detailed history of tax expenditures, how they work, arguments for as well as against them as a policy tool, and reform ideas being considered and implemented by other governments. Specifically addressing D.C., Mr. Juffras noted that the District has two types of tax expenditures: federal compliance (mirroring I.R.S. code, such as the home mortgage interest deduction) and local provisions (established by D.C. law, such as business tax credits for high-technology firms). The Office of Revenue Analysis estimated that the D.C. government lost more than $2.7 billion in revenue in tax expenditures in fiscal year 2012. Of this total, however, only roughly $1 billion was in local discretionary law—the remaining money goes to expenditures related to federal conformity and local exemptions for other governments. Mr. Juffras made sure to note, however, that estimates of lost revenue were just that: estimates. Ending a tax expenditure would have numerous consequences. For example, if D.C. were to end its EITC program it could alter incentives to work and therefore the actual revenue collected from repeal.

After citing the work of other governments and noted experts in the field, Mr. Juffras laid out a summary of tax expenditure reform ideas for the Commission to consider. His list of proposals included implementing a performance review system, requiring tax expenditures to have sunset provisions (to encourage review), examining tax expenditure design (income ceilings, clawback provisions, etc.), including tax expenditures in the appropriations process and increasing committee oversight.

Mr. Williams asked Mr. Juffras to go into further depth about the categorizing of tax expenditures after he had completed his prepared remarks. Mr. Brunori asked Mr. Juffras if the Commission should take on tax expenditures given how difficult politically it is to make changes to them. Mr. Juffras explained that eliminating tax expenditures is not the only option available to policymakers, and that there are numerous opportunities for reform with the design of tax expenditures. He advised the Commission to take a specific look at tax expenditures that are both large in revenue lost and inefficient as policy tools. A follow-up question was then asked about federal conformity and the obstacles it creates with reform at the local level. Mr. Juffras noted that while federal conformity is important that the District has already decoupled from the federal government in many areas of tax policy when it believed it was in the best interest of the city. After some disagreement among commissioners about the value of tax expenditures, Mr. Williams broached the question of who would study and analyze the value of expenditures? Mr. Juffras noted that the Office of Chief Financail Officer (CFO) currently examins tax expenditures at their creation but that no follow-up studies are completed to see if they achieve their policy goals. He said this could be a role undertaken by the CFO but it did not have to be.

VI. Next Commission Meeting: Feb. 4, 2012

Mr. Kevin Clinton announced that the next meeting of the Commission will be on Monday, Feb. 4, 2012 and noted that in addition to the previously scheduled presenters the Commission has invited Robert Zahradnik, of the Pew Center on the States, and Robert Cline, from Ernst & Young, to speak with the Commission respectively about their organizations reports on tax incentives and the business climate of the District.

VII. Adjournment (Commission Chairman)

Mr. Williams, as well as several other commissioners, thanked the three speakers for their informative and engaging presentations and the meeting was adjourned.