

# DC Tax Revision Commission



## Economic Overview

Final Report  
May 2014

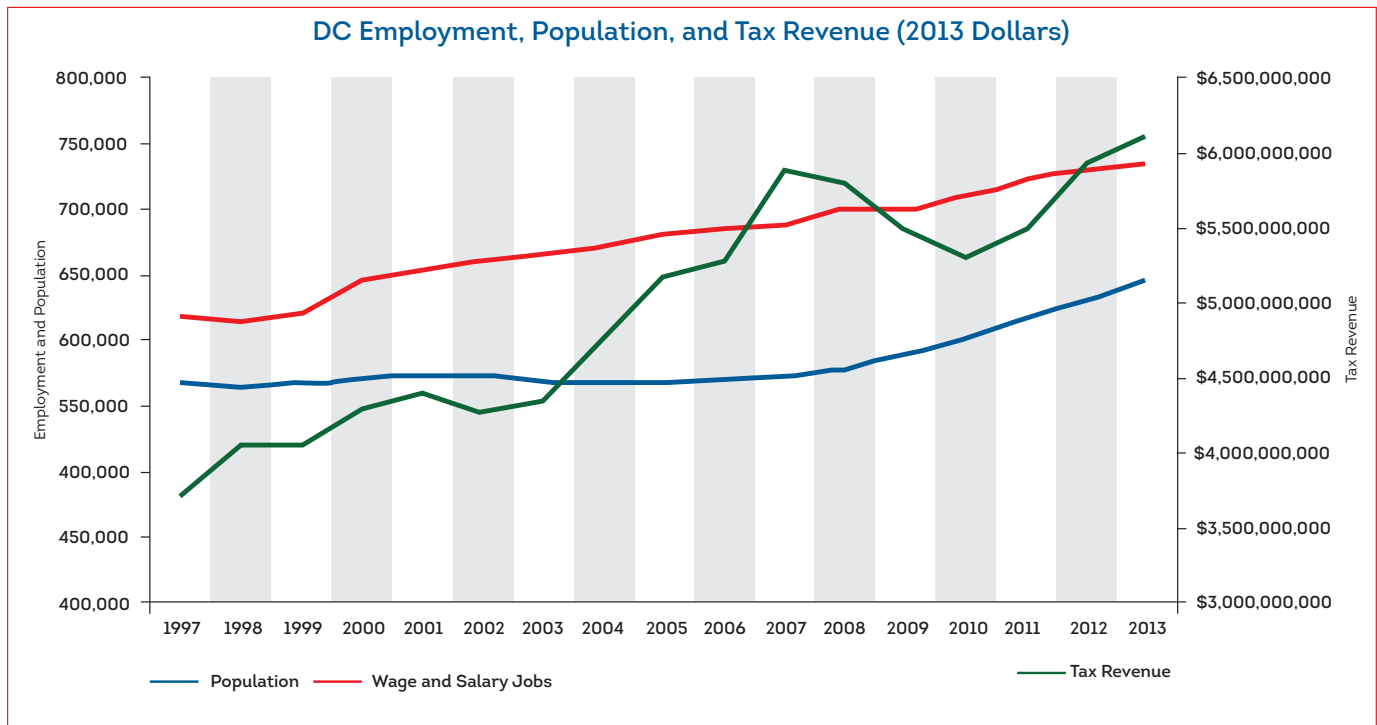


# ECONOMIC OVERVIEW

## Introduction

The District of Columbia's economic picture is largely bright. Despite recent losses in federal jobs, overall employment continues to grow. In addition, the District is attracting more and more people to live in the city. This growth in population and employment contributed to a relatively stable and growing tax revenue base.

In 2013, the District's job and population growth exceeded that of the rest of the region and the nation. Both are projected to increase over the next few years despite the continued retrenchment of the federal government and significant regional competition.



Source: Office of Revenue Analysis and Bureau of Labor Statistics

The District's path to financial stability was set in the late 1990s when it handled its finances so well that it was able, in 2001, to move out from under the management of the District of Columbia Financial Control Board. The District's tax revenue growth has far outpaced the growth in employment and in population. At present, the District's budget is balanced—and in surplus—with tax revenues projected to grow at over 3 percent annually for the next few years.

	1997	2013	Percent Change
Employment	619,050	744,375	20%
Population	568,250	644,775	14%
Gross Local Tax Revenue (2013 Dollars)	\$3.7 billion	\$6.1 billion	65%

Source: Office of Revenue Analysis

## SECTION 1: EMPLOYMENT

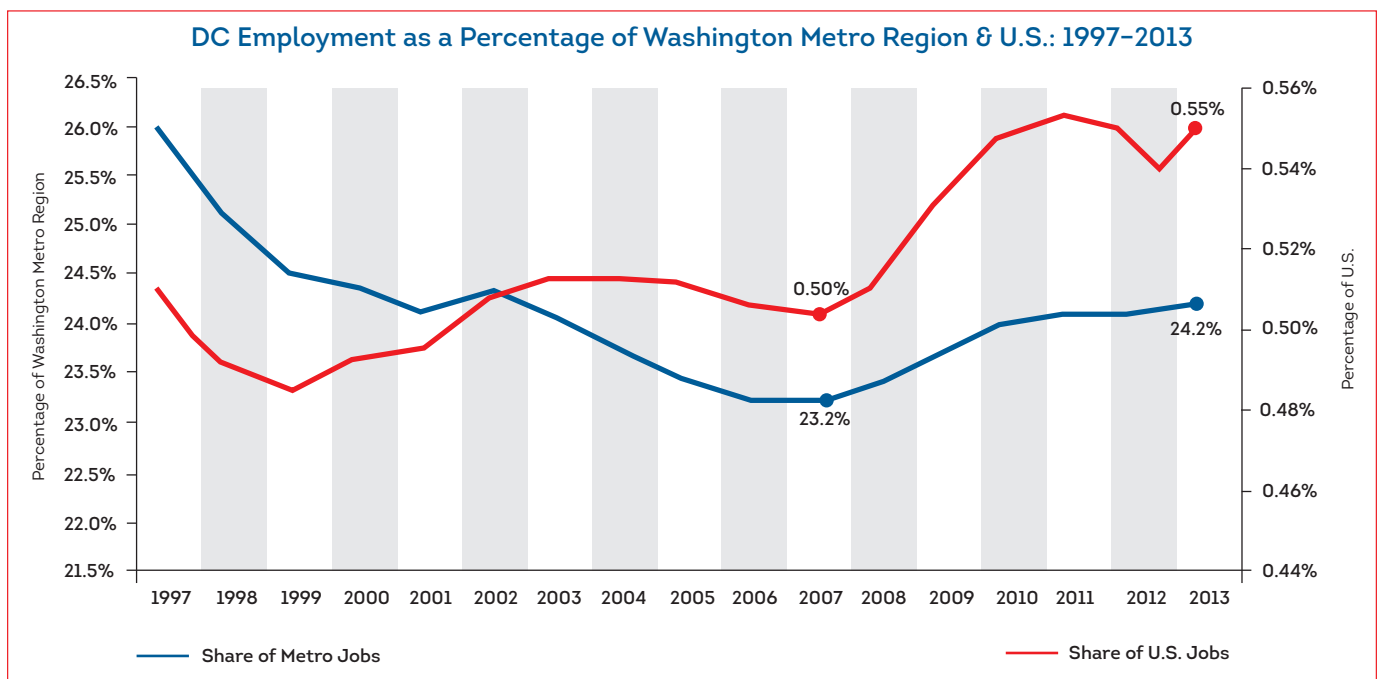
As the following chart illustrates, there are approximately 850,000 jobs in the District, of which 745,000 are wage and salary jobs.

District residents hold approximately 255,000 of the 850,000 jobs; nonresidents (i.e., commuters) hold the remaining 595,000. The total number of employed residents in the District is approximately 340,000, including 80,000 who reverse commute to jobs in Maryland and Virginia.<sup>27</sup>

Employment in DC: 2013	
Sector	Total Jobs (Full-time and Part-time)
Wage and Salary (except military) (a)	745,000
Proprietor (b)	82,400
Domestic (b)	7,500
Military (b)	18,500
Total	853,400

Source: Bureau of Labor Statistics and Office of Revenue Analysis; (a) 2013 BLS, (b) 2012 ORA

The District is the largest employment center in the Washington metropolitan region. There have been periods in which the District's percentage of jobs in the region has declined (notably from 1997 to 2006) but, recently, the percentage of regional jobs has stabilized at approximately 24 percent. The District's percentage of national employment declined through 1999 and then grew until 2011.



Source: Office of Revenue Analysis

During the past 15 years, the District's relative employment growth has been uneven. At times its growth has lagged behind that of surrounding suburbs, although it has exceeded the nation's employment growth. From 1997 to 2013, employment in the District, the Washington metro region, and the United States expanded by 19 percent, 30 percent, and 13 percent, respectively.

As the next table shows, the District since 2007 has enjoyed higher employment growth than both the Washington suburbs and the nation. In the last two years, the District's employment growth was slowed by federal employment cuts and tightened spending on federal contractors but still grew at a relatively strong pace.

<sup>27</sup> U.S. Bureau of Labor Statistics.

Employment Growth					
	1997-2007	2007-2010	2010-2011	2011-2012	2012-2013
DC	11.6%	2.5%	2.0%	1.2%	1.8%
Washington Suburbs	30.1%	(2.0%)	1.2%	1.1%	1.6%
United States	12.7%	(5.5%)	1.2%	1.7%	1.6%

In January 2014, the George Mason University Center for Regional Analysis projected strong employment growth for the District for the next five years, though at a slightly lower rate than for the rest of the Washington metropolitan region. This analysis predicts that the District will see 10 to 16 percent growth in regional jobs.

Projected Employment Growth in DC		
Year	New District Jobs	DC's Percentage of Regional Job Growth
2014	9,700	16%
2015	11,300	17%
2016	9,300	14%
2017	6,500	12%
2018	4,600	10%

Source: George Mason University Center for Regional Analysis

### Employment—By Major Sectors

Since 1997, federal government employment has declined from 31 percent of the District’s jobs to 27 percent, and local government employment has declined from 7 percent to 4 percent. During the same period, private sector has increased from 62 percent to 69 percent of the District’s employment. The decline in the share of employment coming from the federal government is the result of faster job growth in the private sector employment. Federal government employment in the District did grow over this time period, from 192,000 to 205,000 jobs, but at a slower pace than that of private sector employment.

Employment in DC: 1997 vs. 2013 (a)				
Sector	1997		2013	
	Total Jobs (1,000s)	Percentage of Jobs	Total Jobs (1,000s)	Percentage of Jobs
Federal Government	192	31%	205	27%
Local Government	41	7%	35	4%
Legal	29	5%	30	4%
Professional Services	48	8%	78	11%
Employment Services	12	2%	15	2%
Business Services	27	4%	31	4%
Information	24	4%	17	2%
Finance	28	5%	29	4%
Organizations	42	7%	61	9%
Education	35	4%	58	6%
Health Care	48	8%	66	9%
Food Services	25	4%	45	6%
Accommodations	15	2%	15	2%
Amusement & Recreation	3	1%	7	1%
Retail	18	3%	20	2%
Wholesale	4	1%	5	1%
Construction	9	1%	14	3%
Personal Services	6	1%	8	1%
Other Private (b)	12	2%	5	1%
<b>Total</b>	<b>618</b>	<b>100%</b>	<b>744</b>	<b>100%</b>

Source: Office of Revenue Analysis (1997) and Bureau of Labor Statistics (2013)

(a) Annual average wage and salary employment data.

(b) Other includes manufacturing, transportation, and utility employment.

Private sector employment in the District expanded by 113,000 jobs from 1997 to 2013, or 27 percent. Employment in professional and business services, nonprofit organizations and associations, health care, education, and food services grew strongly during this period. In contrast, employment in information services and other private sector segments (manufacturing, transportation, and utilities jobs) declined.

Changes in DC Employment							
Sector	Total Change in Jobs (1,000s)						
	1990-1997	1997-2000	2000-2002	2002-2008	2008-2011	2011-2013	Total 1997-2013 (b)
Federal Government	(28)	(8)	9	1	18	(7)	13
Local Government	(16)	(1)	(1)	2	(6)	-	(6)
Legal	(1)	5	1	1	(6)	-	1
Professional Services	6	6	3	11	5	5	30
Employment Services	4	1	(2)	2	1	1	3
Business Services	(3)	4	4	-	(2)	(2)	4
Information	(2)	1	-	(3)	(3)	(2)	(7)
Finance	(5)	5	(2)	(2)	(1)	1	1
Organizations	3	3	5	8	1	2	19
Education	2	6	(5)	10	4	3	23
Health Care	-	3	3	1	7	2	18
Food Services	(3)	3	1	6	5	5	20
Accommodations	(1)	-	(1)	1	-	-	-
Amusement & Recreation	-	2	-	1	-	-	3
Retail	(8)	(1)	-	1	-	2	2
Wholesale	(2)	-	-	-	-	-	1
Construction	(5)	2	1	1	(1)	1	5
Personal Services	(1)	-	-	1	-	1	2
Other Private (a)	(8)	(1)	(2)	(3)	(1)	-	(7)
Total (b)	(66)	32	14	40	22	18	126

Source: Office of Revenue Analysis

(a) Other includes manufacturing, transportation and utility employment.

(b) Numbers do not total exactly due to rounding.

From 1990 to 1997, District employment floundered. Federal and local government employment fell sharply, as did retail and other private employment.

From 1997 through 2011, both private and federal government employment in the District grew steadily. Starting in 2011, however, federal employment in the District and Washington region declined. This contraction was offset fully by job gains in the private sector. From 2011 through 2013, the private sector created 18,000 jobs, while employment in the federal government declined by 7,000 jobs.

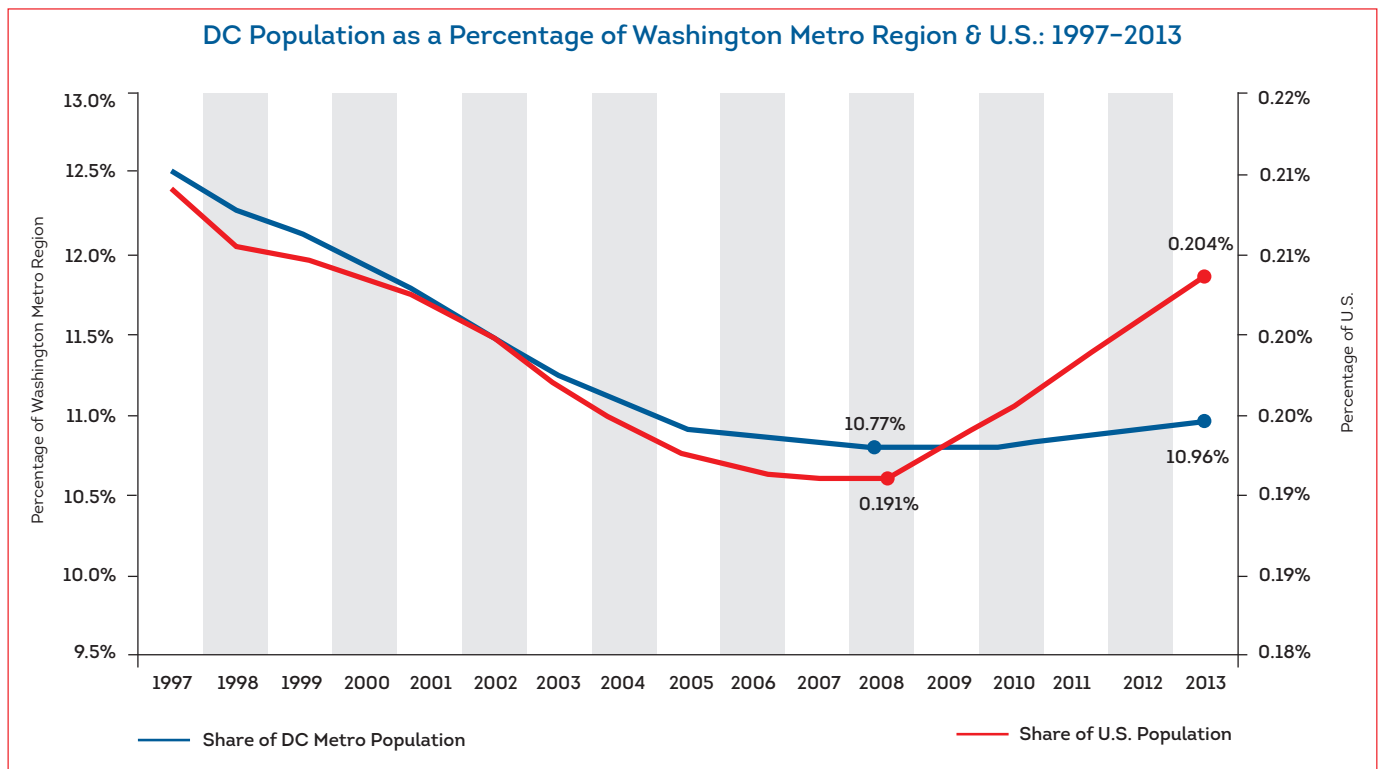
## SECTION 2: POPULATION

Since 2009, the District’s residential population has grown more than 2 percent annually, adding 12,000 to 14,000 new residents a year.

DC Population			
Year	Population Estimate	One-Year Change	Percentage Change
2000	572,046	-	-
2005	567,136	(4,910)	(0.9%)
2006	570,681	3,545	0.6%
2007	574,404	3,723	0.7%
2008	580,236	5,832	1.0%
2009	592,228	11,992	2.0%
2010	604,989	12,761	2.2%
2011	619,020	14,031	2.3%
2012	633,427	14,407	2.3%
2013	646,449	13,033	2.1%

Source: Office of Revenue Analysis

The population growth was smaller than that of the Washington suburbs and the nation until 2008. The increase in the District’s population since then has been relatively strong due to greater domestic migration from other states and natural growth (increasing numbers of births in tandem with stable numbers of deaths) as demonstrated in the graph that follows.



Source: Office of Revenue Analysis

From 1997 to 2013, the District, the Washington metro region, and the United States saw their populations grow 14 percent, 31 percent, and 16 percent, respectively. Since 2010, the District's population has grown the fastest.

Population Growth					
	1997-2007	2007-2010	2010-2011	2011-2012	2012-2013
DC	1.0%	5.2%	2.3%	2.3%	2.1%
Washington Suburbs	18.9%	5.4%	1.9%	1.5	1.4%
United States	10.5%	2.7%	0.8%	0.7%	0.7%

Source: Office of Revenue Analysis

For 2013, approximately 35 percent of the District's population growth was natural increases (births less deaths). The District also grew from net migration, including net migration from Virginia. The District lost residents to Maryland but fewer than in recent years.

Net Domestic Migration of Taxpayers to/from DC				
Year	Maryland	Virginia	Other 48 States	Total Domestic
2006	(3,009)	331	3,079	401
2007	(2,522)	199	2,541	218
2008	(1,655)	336	2,215	896
2009	(704)	338	4,450	4,084
2010	(946)	539	5,302	4,895
2011	NA	NA	NA	6,907*
2012	NA	NA	NA	6,050*
2013 Total Migration	NA	NA	NA	6,319*

Source: Buschman use of IRS data and Office of Planning, DC Government

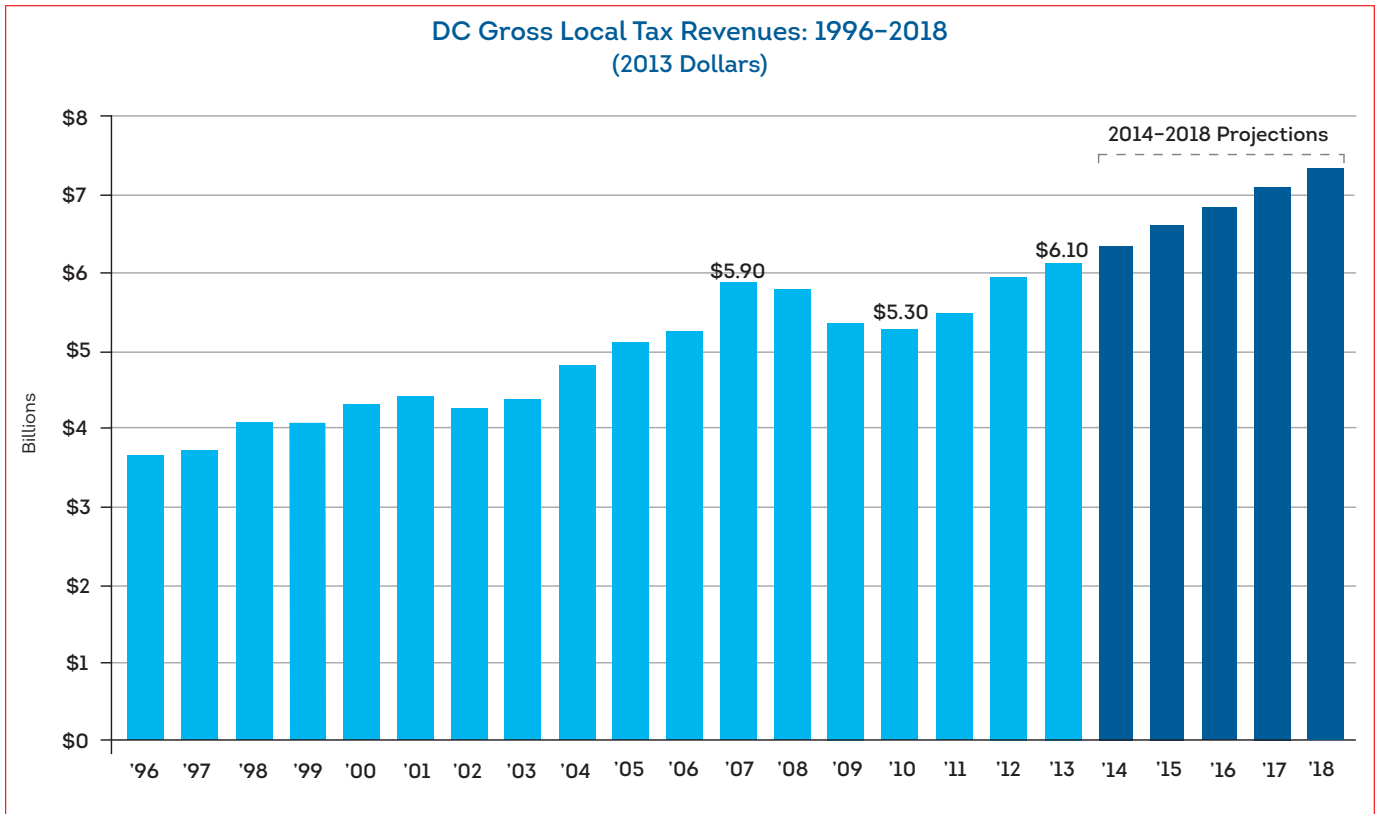
\*Including net foreign migration, total net migration was 8,769 in 2011, 8,953 in 2012, and 9,177 for 2013.



### SECTION 3: GROSS LOCAL TAX REVENUES

From 1997 to 2013, the District's local gross tax revenues enjoyed relatively stable growth, and they are projected to increase 2.5 to 3 percent annually from 2014 to 2018.

In constant 2013 dollars, the District's gross local tax revenues have grown \$2.4 billion since 1997 even though the District lowered several major tax rates during this period.



Source: DC Office of Chief Financial Officer

The District's local tax revenue makes up only 58 percent of the city's General Fund Operating Revenue. Non-tax local revenues make up 10 percent and federal payments and grants make up the rest. Tax revenue rose to 61 percent of total operating revenue but declined in the past few years as federal stimulus spending and other federal programs have grown in response to the Great Recession.

### Sources of DC General Fund Operating Revenue: FY 1997, 2006, 2013

	1997		2006		2013	
	Millions	Percentage of Total	Millions	Percentage of Total	Millions	Percentage of Total
Local Source Revenue	\$2,803	64%	\$5,239	71%	\$7,104	68%
Total Gross Taxes (Before Earmarks)	\$2,522	58%	\$4,516	61%	\$6,100	58%
Total Non-Tax	\$281	6%	\$723	10%	\$1,004	10%
Federal Payments & Grants	\$1,554	36%	\$2,155	29%	\$3,277	32%
Federal Payments	\$666	15%	\$354	5%	\$555	6%
Grants	\$888	21%	\$1,801	24%	\$2,722	26%
All Revenue Sources	\$4,357	100%	\$7,394	100%	\$10,381	100%

Source: Office of the Chief Financial Officer, 2013 Comprehensive Annual Financial Report

Since the Great Recession, federal grants have risen by approximately \$900 million. If Congress cuts federal payments to the District (e.g., the college tuition fund, District court system) or federal grants to the District (e.g., Medicaid, Temporary Assistance to Needy Families), then the District would need to find new revenue sources to fund these programs at their current levels.

### Major DC Tax Types in FY 2013

	Revenue (\$ millions)	Percent of Total Gross Tax Revenue
Real Property Tax	\$1,914	31%
General Sales Taxes	\$1,137	19%
Individual Income Tax	\$1,641	27%
Business Income Tax	\$453	7%
Deed Taxes	\$361	6%
Estate Tax	\$40	1%

Source: Office of Revenue Analysis

The District collects a diverse range of tax revenues, including those traditionally collected by states (e.g., individual income taxes and sales taxes) and those traditionally collected by localities (e.g., real property taxes).

All tax revenues have grown over the past 15 years, but real property tax revenue has grown the most. It now accounts for 31 percent of total gross local tax revenues—up from 24 percent in 1997. While income tax revenue declined as a percentage of total local tax revenues, it grew on a constant dollar basis during this period.

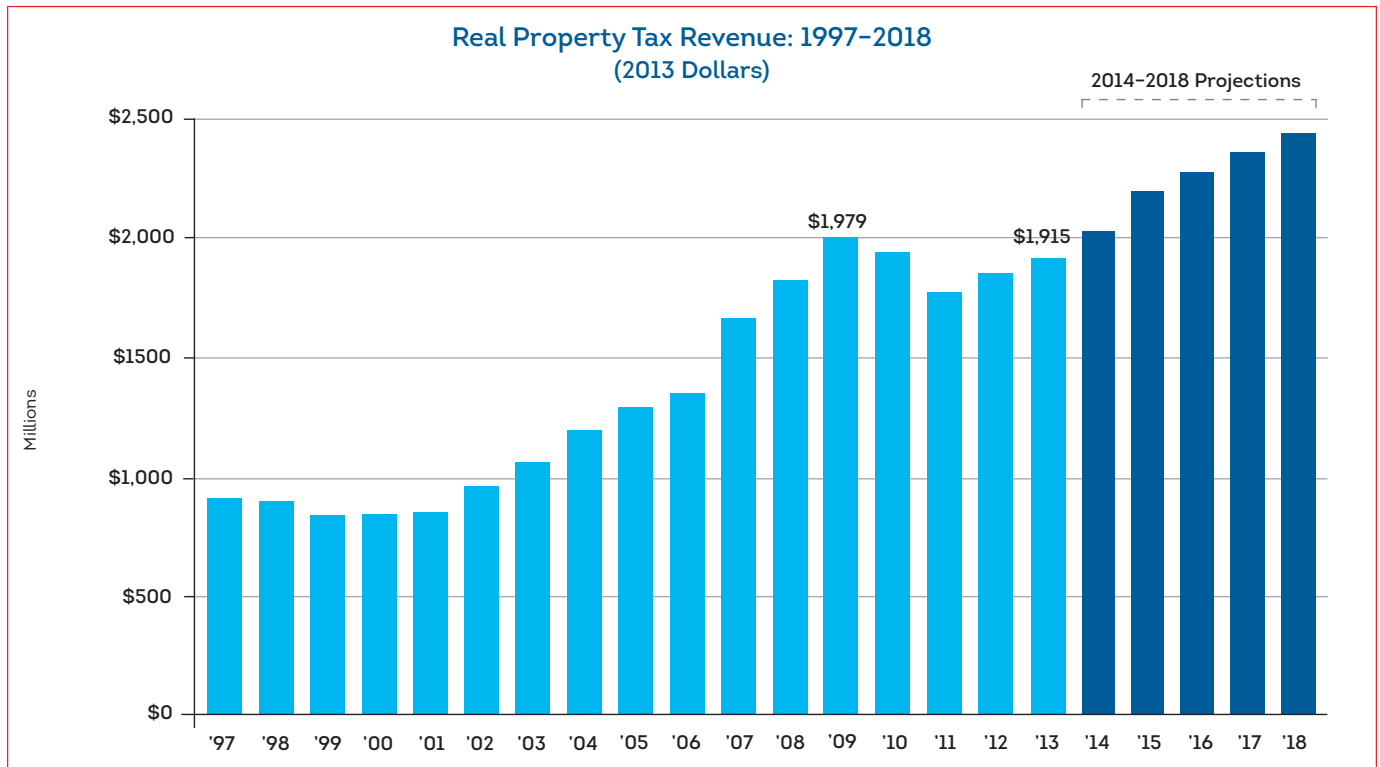
### Tax Type as Percent of Total Gross Local Tax Revenues: 1997-2018

Tax Type	1997	2010	2013	2018 (projected)
Real Property	24.0%	37.0%	31.0%	33.0%
Individual Income	30.0%	22.0%	27.0%	27.0%
Sales	19.0%	20.0%	19.0%	19.0%
Business Franchise	5.7%	4.2%	4.9%	4.8%
Unincorporated Business Franchise	1.5%	2.3%	2.5%	2.6%
Deed	2.9%	4.2%	5.9%	5.0%
Estate	1.1%	0.8%	0.7%	0.5%

Source: Office of Revenue Analysis

## Real Property Tax Revenues

Real property tax revenues grew from 24 percent of total local gross revenues in FY 1997 to 37 percent in FY 2010 (based on January 2009 assessments). This reflected a robust real estate market (both a rapid growth in property values and substantial new development throughout the District) and a decline in individual income tax revenue during the Great Recession. Real property tax revenues then dropped to 31 percent in 2013 as property values fell in the aftermath of the Great Recession and individual income tax revenue recovered. Real property tax revenues are projected to increase again to 33 percent of total local tax revenues in FY 2015 by the Office of Revenue Analysis.



Source: DC Office of the Chief Financial Officer

Residential property accounted for 54 percent of the District's total estimated property value in FY 2013 (based on an assessment date of January 2012) and 31 percent of total gross local property tax revenue. Commercial property accounted for 46 percent of the total estimated values for FY 2013 and 68 percent of total gross local real property tax revenue.

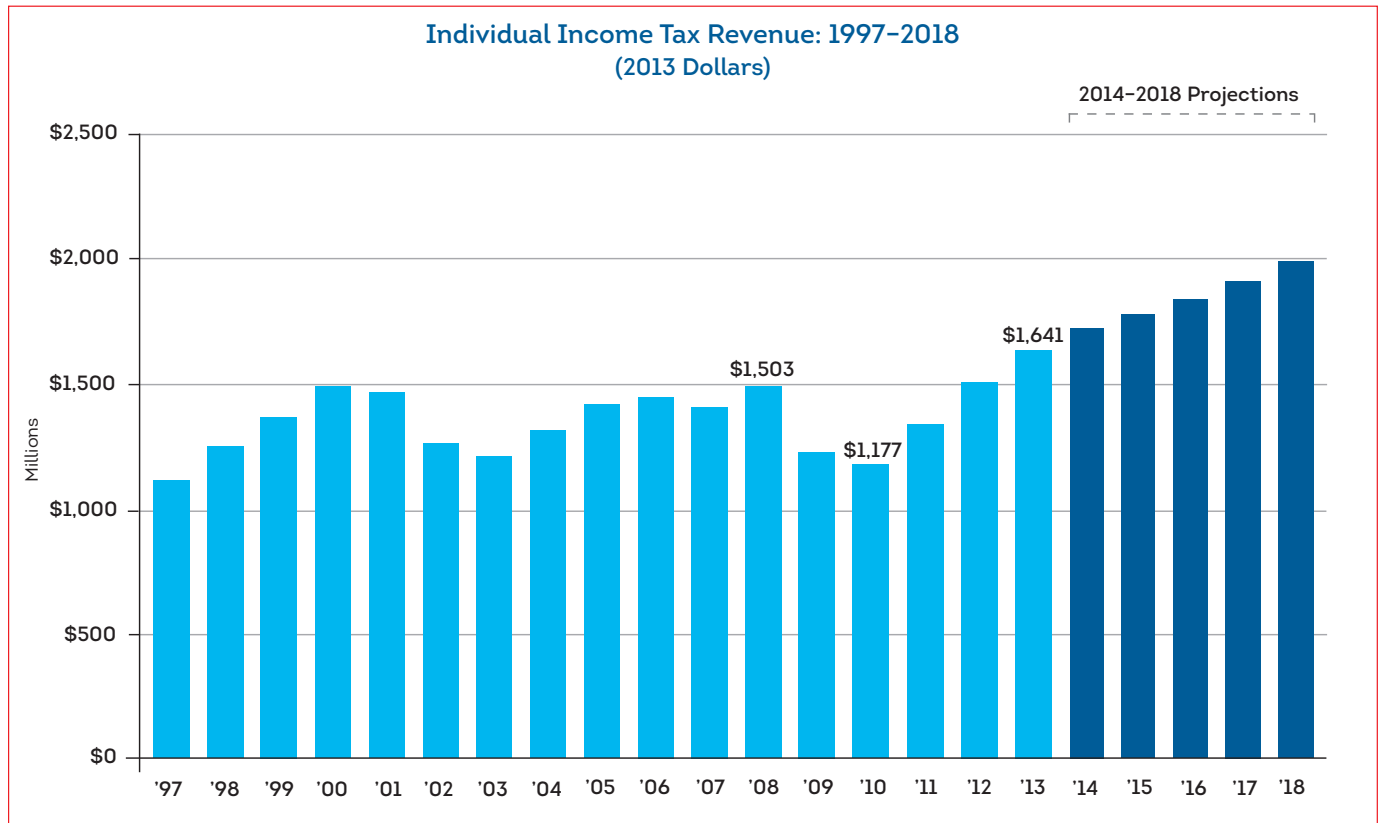
The average effective residential property tax rate ranged from \$0.25 per \$100 for senior-owned homes to \$0.77 per \$100 for non-owner-occupied homes. Commercial properties averaged an effective tax rate of \$1.78 per \$100.

Real Property Assessed Value and Tax Rate by Class, Tax Year 2010			
Class of Property	Number of Properties	Assessed Value (\$ million)	Effective Tax Rate (per \$100)
Residential	170,615	\$88,163	\$0.64
Homestead	95,377	\$51,066	\$0.55
Non-Senior	76,177	\$42,904	\$0.61
Senior	19,200	\$8,162	\$0.25
Non-Homestead	75,238	\$37,097	\$0.77
Commercial	9,089	\$65,969	\$1.78
Vacant/Abandoned	73	\$23	\$1.06
Total	179,777	\$154,154	\$1.13

Source: Office of Revenue Analysis, November 2013 Data Book

### Individual Income Tax Revenues

Individual income tax revenues have grown considerably since 1997. However, individual income tax revenue as a percent of total local tax revenue declined from 30 percent in 1997 to 25 percent in 2012. It increased to 27 percent in 2013 and is projected to stay at 27 percent through 2018.<sup>28</sup>



Source: DC Office of the Chief Financial Officer

As described in the population section of this chapter, the District’s population has grown by roughly 13,000 residents annually for the past few years, with approximately 8,500 net new residents moving to the District annually. Current projections show this growth rate continuing for the next two or three years.

The individual income tax revenue stream is divided between stable revenue that comes from the withholding of taxes for wage and salary employees and a less stable stream of non-withholding tax payments, primarily capital gains tax payments.

Approximately 80 percent, or \$1.3 billion per year, of individual income tax revenue comes from the withholding of wage and salary income for District residents. This revenue from withholding has increased every year since 1997. It is very stable.

On the other hand, the non-withholding portion of the individual income tax revenue is volatile. This revenue category has ranged from a low of \$42 million in FY 2010 to a high of \$388 million in FY 2007. These taxes are paid on a quarterly basis, paid with the final return, or netted against other income for refund.

There were 58,357 tax filers in FY 2013 with nominal incomes of \$100,000 or more. This constituted 16 percent of all filers and 74 percent of the city’s individual income tax revenue. In 2004, the 28,924 filers with nominal incomes of \$100,000 or more constituted 10 percent of all filers and 59 percent of the District’s income tax revenue.

The number of tax filers in all income groups increased at all income levels from 2010 to 2013.

<sup>28</sup> Feb. 26, 2014 Revenue Projection, DC Office of the Chief Financial Officer.

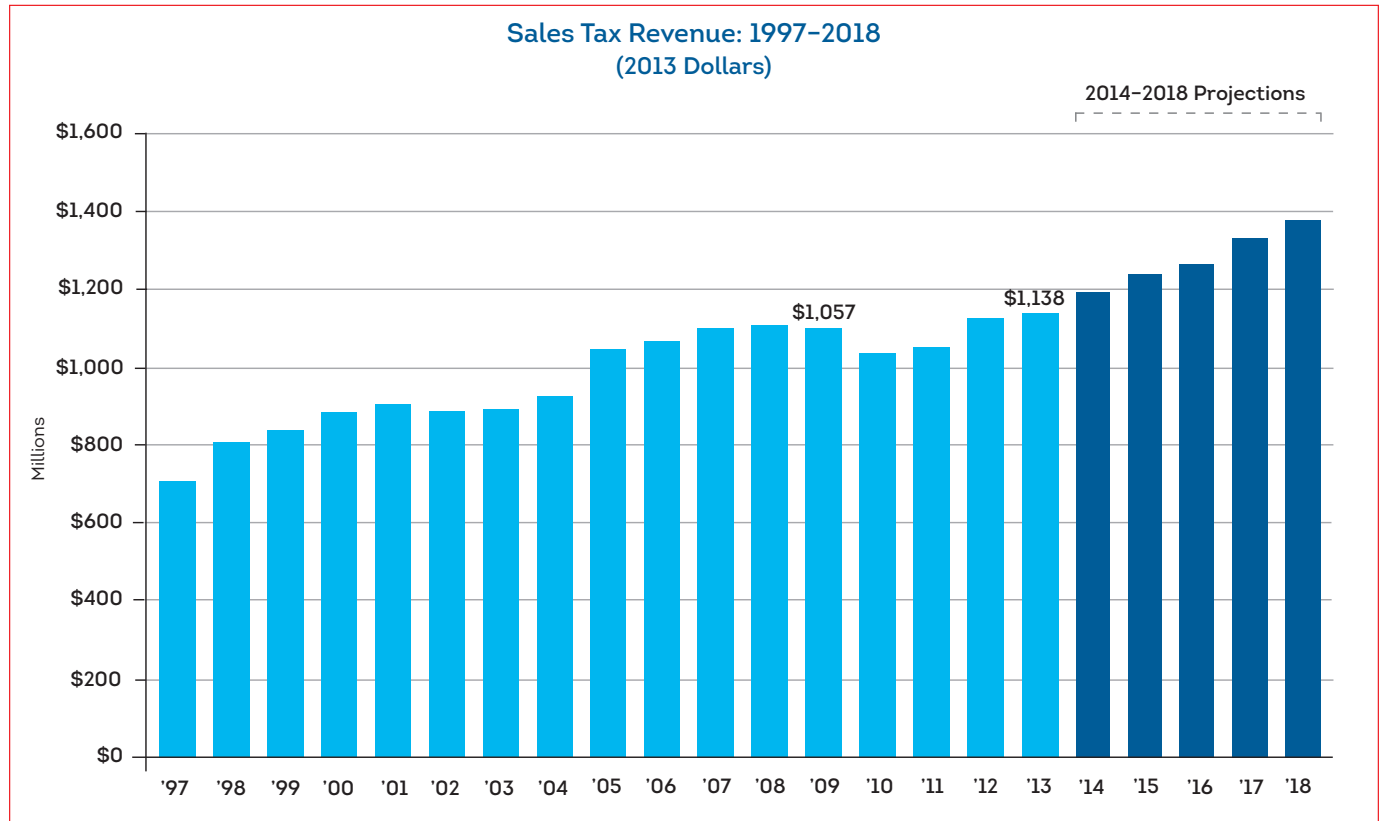
Change in the Number of DC Taxpayers: 1997-2013				
Income Group	Total Change in Filers			
	2012-2013	2010-2013	2003-2013	1997-2013
Below \$10,000	3,002	7,593	2,374	(14,685)
\$10,001 to \$25,000	1,451	7,114	(3,179)	(10,321)
\$25,001 to \$50,000	1,341	4,275	2,492	11,024
\$50,001 to \$75,000	2,562	2,562	15,732	24,102
\$75,001 to \$100,000	1,910	5,418	12,598	16,809
Above \$100,000	4,046	16,408	31,143	40,985
Total Increases	14,312	47,573	61,160	67,914

Source: DC Comprehensive Annual Financial Reports, FY 2006 and FY 2013

### Sales Tax Revenues

Sales tax revenues include the general sales tax and several special sales taxes, such as restaurant, liquor, hotel, parking, and tobacco.

Sales taxes remained at 19 percent of total local revenues from 1997 to 2013 and are projected to continue at this level through 2018. However, from FY 2005 to 2012, sales tax revenue declined from 20.3 percent of total local revenues to 18.7 percent, mainly from a decline in general sales tax receipts.



Source: DC Office of the Chief Financial Officer

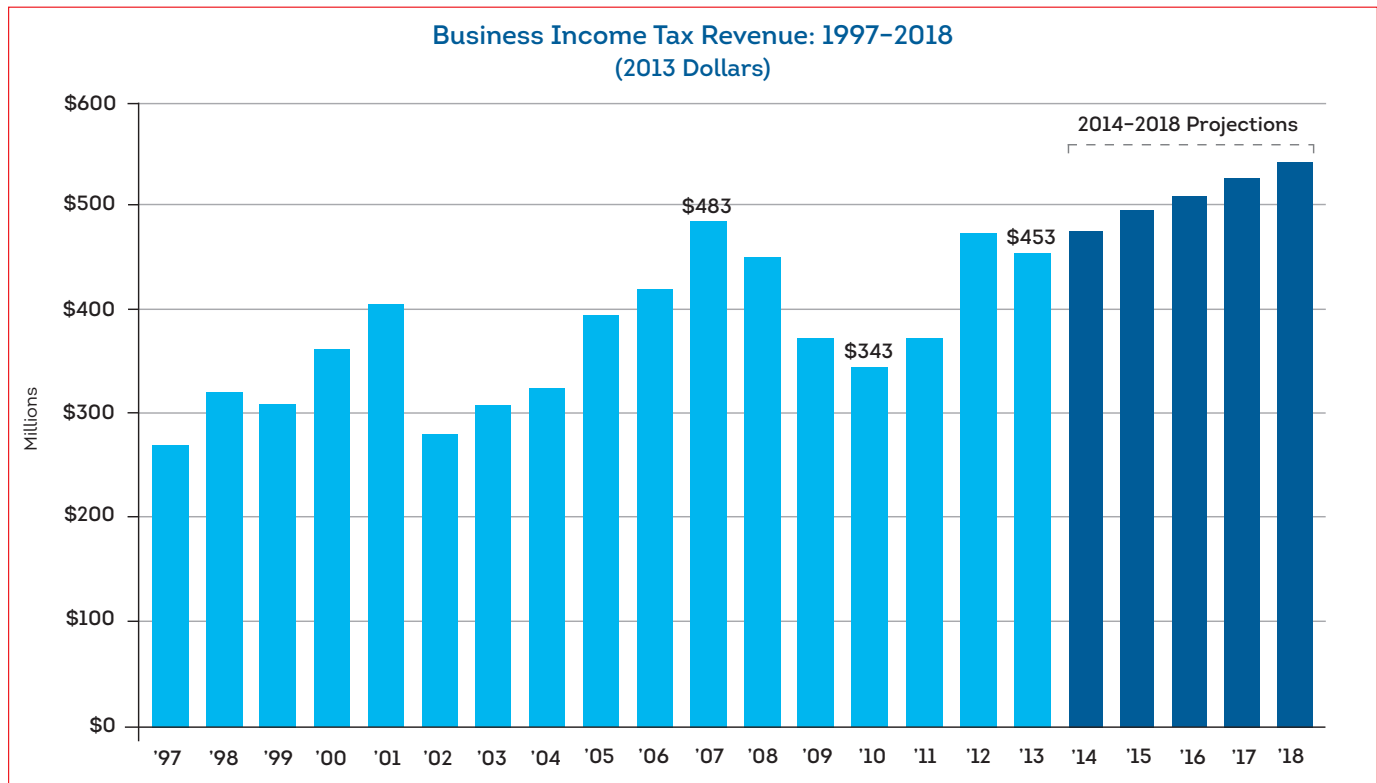
DC Sales Tax Revenue		
Tax Type (tax rate)	Revenue FY 2013 (in millions)	Revenue Growth: 2008-2013 (a)
General Tax (5.75%)	\$449	(2%)
Restaurant and Other Taxes (10%)	\$351	22%
Liquor Tax (10%)	\$49	100%
Hotel Tax (14.5%)	\$225	10%
Parking Tax (18%)	\$62	67%
Other Tobacco	\$1	N/A
<b>Total</b>	<b>\$1,138</b>	<b>12%</b>

Source: Office of Revenue Analysis  
(a) CPI increased 8.9 percent from 2008 to 2013

### Business Income Tax Revenues

Business income tax revenues include revenue from both the District's business franchise tax (BFT) and the District's unincorporated business franchise tax (UBFT). From 1997 to 2013, BFT revenue declined from 5.7 percent of total gross local tax revenues to 4.8 percent, while UBFT revenue increased from 1.5 percent to 2.6 percent.

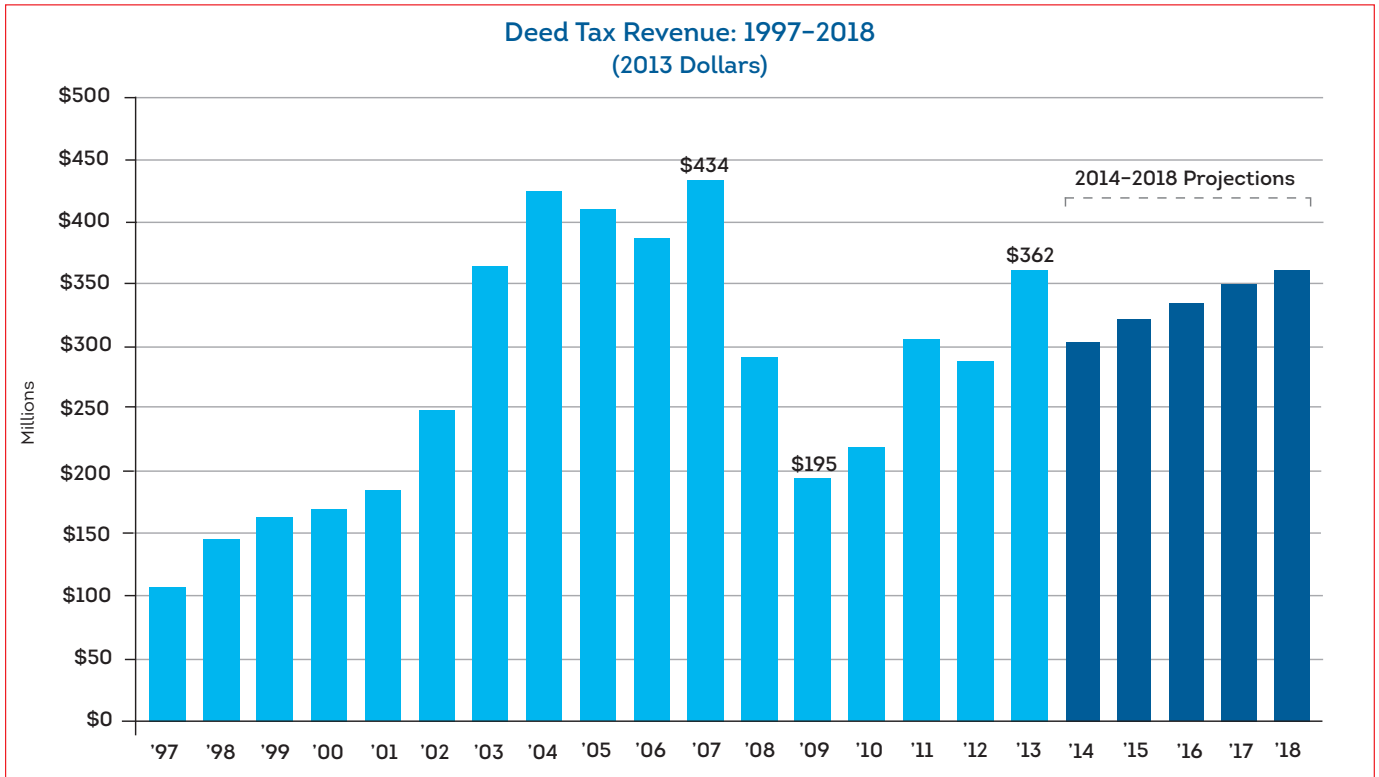
Of the approximately 42,500 business income tax filers in FY 2011, some 28,000, or 66 percent, paid a minimum business income tax of \$250 (gross receipts less than \$1 million) or \$1,000 (gross receipts greater than \$1 million). Payers of the minimum tax accounted for 2.7 percent of the \$360 million of total business income taxes paid in FY 2013. The other 34 percent, or 14,500 business income tax filers, paid 97.3 percent of the total business income taxes in the District.



Source: DC Office of the Chief Financial Officer

### Deed Tax Revenues

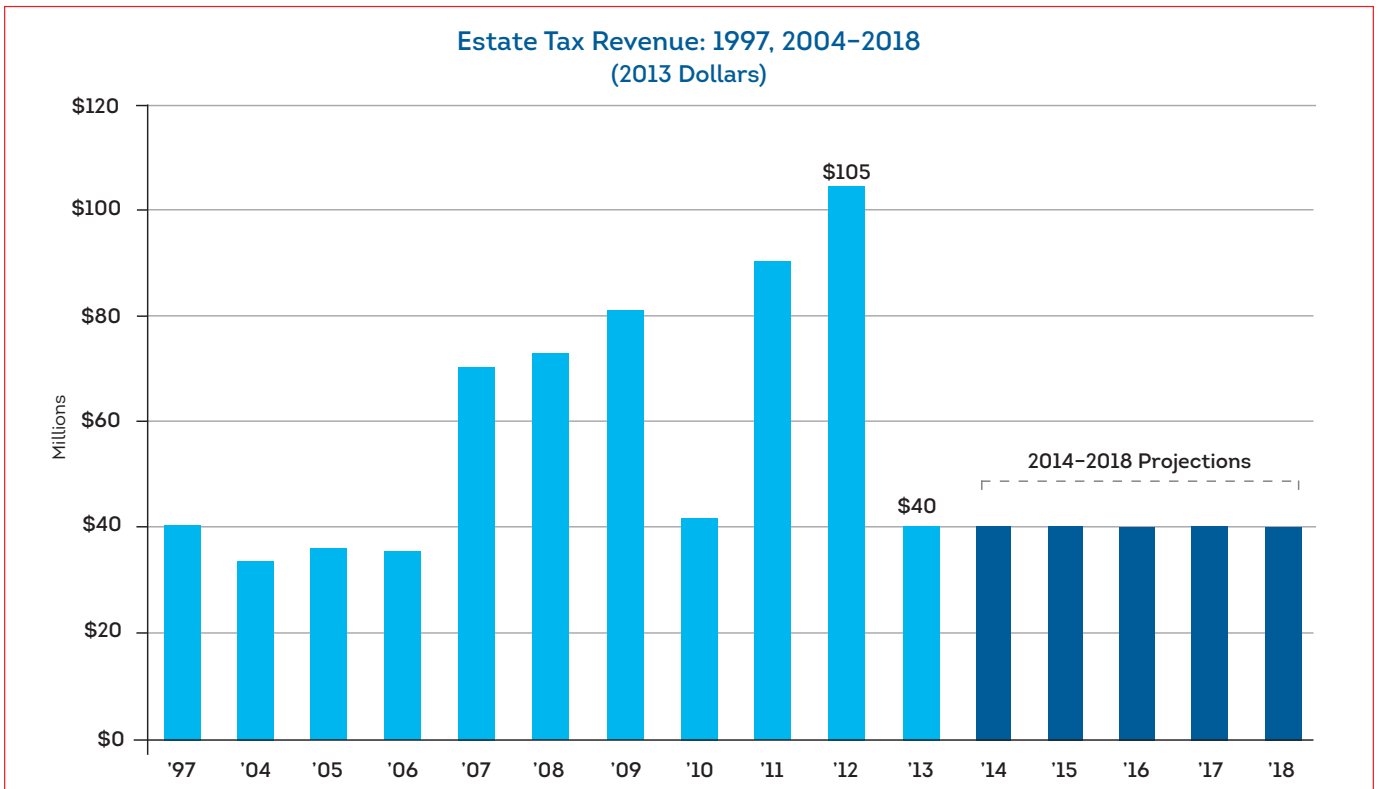
The District's deed recordation and transfer tax revenues have ranged from \$108 million in FY 1997 to \$434 million in FY 2007 to \$195 million in FY 2009 (in constant 2013 dollars). The following bar graph shows the volatility of deed tax revenue in the District.



Source: DC Office of the Chief Financial Officer

### Estate Tax Revenues

The District's estate tax is also a volatile source of revenue, ranging from \$33 million in FY 2004 to \$105 million in FY 2012 to \$40 million in 2013 (in constant 2013 dollars). This reflects the fact that the estate tax falls on a small number of estates each year and that tax collections in any year can be affected by the settlement of just a handful of large estates.



Source: DC Office of the Chief Financial Officer