



District of Columbia

## **Overview of DC Taxes and Revenues**

### **Presentation to the District of Columbia Tax Revision Commission**

**DC Office of Revenue Analysis  
October 1, 2012**



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## Presentation Agenda

- DC's tax and revenue system
- Tax revenues since 1984
- Tax revenues since 1998, the year of the last Tax Revision Commission report
- The impact of the recession and subsequent recovery
- Taxes and other sources of funding over the past 10 years
- Debt financing



## DC's tax and revenue system

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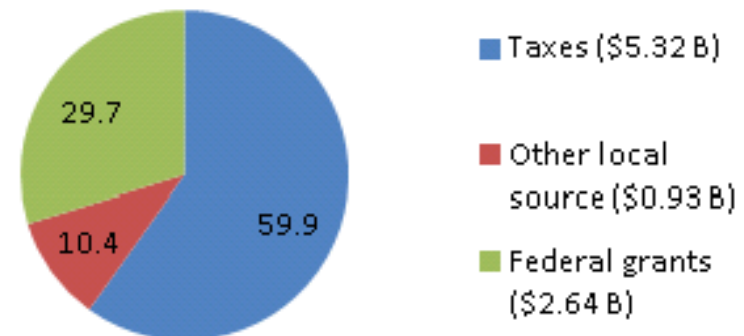
- DC's tax system reflects its status as a "city-state" operating pursuant to Congressional statute and oversight.
- Within the limitations of the Home Rule legislation, the District levies all of the usual state and local taxes, receives federal grants generally available to state and local governments, and also receives a few special payments Congress gives to DC.
- General fund current resources from all sources for operations in FY 2011 were about \$8.90 billion. Of this revenue, \$6.25 billion (70.3%) was from DC sources.

Sources of DC General Fund operating revenue: FY 2011		
	\$ million	% of total
Local source revenue	6,254	70.3
--Taxes (before earmarks)	5,325	59.9
--Non-tax	929	10.4
Grants (almost all federal)	2,641	29.7
All sources	8,895	100.0

*Source: ORA and DC Financial Plan. Excludes fund balance and other small miscellaneous adjustments. Taxes include public space rental.*

DC operating revenue sources: FY 2011

% of total





## DC's own-source tax and other funds

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Of DC's \$6.25 billion of own-source revenues in FY 2011:

- 85% (\$5.3 billion) were taxes (the main focus of the presentation). About 8% of these taxes (\$419 million) were earmarked for special uses such as transfers to the Convention Center or TIF payments. The rest were available for general appropriation.
- 86% were taxes and non-tax revenues available for general appropriation.

Sources of DC own-source General Fund operating revenue: FY 2011		
	\$ million	% of total
Taxes	5,325	85.1
--Taxes available for general appropriation	4,906	78.4
--Earmarked (Convention Center, TIF, etc)	419	6.7
All sources other than taxes	929	14.9
--Fees, charges, fines, and miscellaneous	423	6.8
--Lottery	62	1.0
--Special purpose	444	7.1
All sources	6,254	100.0

Source: ORA. Excludes fund balance and other minor miscellaneous adjustments. Taxes include public space rental.

Dedicated and non-dedicated own-source DC General Fund operating revenue: FY 2011		
	\$ million	% of total
Available for general appropriation	5,391	86.2
--Taxes available for general appropriation	4,906	78.4
--Fees, charges, fines, and miscellaneous	423	6.8
--Lottery	62	1.0
Dedicated for special purposes	863	13.8
--Earmarked (Convention Center, TIF, etc)	419	6.7
--Special purpose (O-type)	444	7.1
All sources	6,254	100.0

Source: ORA. Excludes fund balance and other minor miscellaneous adjustments. Taxes include public space rental.

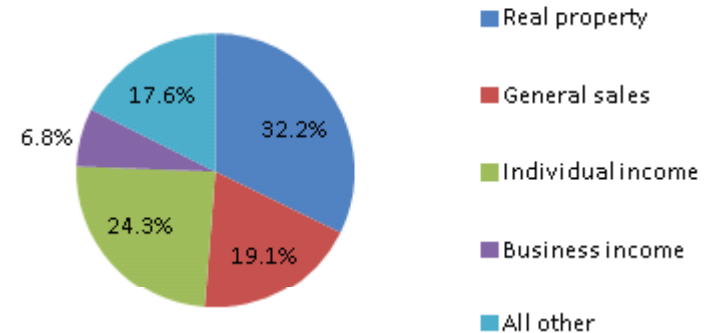


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## DC taxes (before earmarks) in FY 2011

Of the \$5.32 billion in DC taxes in FY 2011, \$4.39 billion (82%) came from four tax types:

- Real property (\$1.72 billion) 32%
- Individual income (\$1.30 billion) 24%
- General sales (\$1.02 billion) 19%
- Business income (\$0.36 billion) 7%



### DC taxes: FY 2011

Tax	\$ million	% of total
Real Property	1,715	32.2
Personal Property	53	1.0
Public Space	33	0.6
<b>Total Property</b>	<b>1,801</b>	<b>33.8</b>
General Sales and Use Gross	1,015	19.1
Alcohol	6	0.1
Cigarette	34	0.6
Motor Vehicle Fuel	30	0.6
Motor Vehicle Excise	43	0.8
<b>Total Sales</b>	<b>1,128</b>	<b>21.2</b>
Individual Income	1,297	24.3
Corporate Franchise	216	4.1
Unincorporated Business Franchise	143	2.7
<b>Total Income</b>	<b>1,656</b>	<b>31.1</b>

Tax	\$ million	% of total
Insurance	70	1.3
Public Utility	150	2.8
Toll Telecommunications Tax	61	1.1
Health Care Provider Tax	13	0.3
HSC contribution	5	0.1
Baseball Gross Receipts	33	0.6
Hospital Bed Tax	9	0.2
ICF-MR Assessment	1	0.0
<b>Total Gross Receipts</b>	<b>342</b>	<b>6.4</b>
Estate	87	1.6
Deed Recordation (Gross)	165	3.1
Deed Transfer (Gross)	132	2.5
Economic Interests	15	0.3
<b>Total Other Taxes</b>	<b>398</b>	<b>7.5</b>
<b>TOTAL TAXES</b>	<b>5,325</b>	<b>100.0</b>



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## US comparisons: FY 2011

- Of DC's taxes
  - 60% are state-type taxes (Individual income, business income, general sales, gross receipts, selective sales, and estate ).
  - 40% are local-type taxes (real property, deed taxes, and personal property).
- The distribution of major taxes is similar to US, with DC having a somewhat smaller proportion of property tax revenue and larger proportion of sales taxes. (The comparison is approximate since definitions in data sources may differ.).
- DC's share (0.43%) of major state and local tax collections in the US is higher than DC's share of US population (0.20%) or US Personal Income (0.35%). This reflects the fact that DC is entirely urban, has high average income and public expenditures relative to the US as a whole, and has a high level of economic activity (some, but not all of which can be taxed) relative to the size of the population.

Collections of major state and local taxes in DC and US: FY 2011					
	\$ million		% of total		DC as % of US
	DC	US	DC	US	
Property taxes	1,801	470,170	38.2	42.7	0.38
Individual income	1,297	292,576	27.5	26.6	0.44
General sales and gross receipts*	1,400	287,966	29.7	26.2	0.49
Corporate income	216	50,066	4.6	4.5	0.43
Total	4,713	1,100,778	100.0	100.0	0.43
<i>Note: (1) comparisons are approximate because category definitions may not be strictly comparable</i>					
<i>(2) DC % of US total: population 0.20%; Personal Income 0.35%; GDP 0.71%</i>					
<i>*For DC, excludes all special sales taxes except for motor vehicles, and includes all gross receipts taxes.</i>					
<i>Source: ORA and US Census Bureau.</i>					

Major taxes in DC and the US as Percent of Personal Income and GDP: FY 2011		
	Personal Income	GDP
US	8.6	7.4
DC	10.6	4.4

*Source: ORA, BEA, and Census Bureau*



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## DC taxes: 1984 to 2011

From FY 1984 to FY 2011 DC's taxes:

- increased 281% in nominal terms.
- outpaced inflation (70% growth adjusted for inflation).
- lagged Personal Income growth over the period as a whole (but not by much), with the biggest gaps occurring during the time of the Great Recession.

### DC taxes and economy: FY 1984 to FY 2011

	FY 1984	FY 2011	% ch	% ch per yr.
Tax revenue (\$ million)	1,398.8	5,325.3	280.7	5.1
Taxes (millions of \$2005)	2,654.6	4,517.5	70.2	2.0
Population	633,277	616,288	-2.7	
Per capita taxes in \$2005	4,192	7,330	74.9	2.1
CPI	102.8	229.9	123.7	3.0
DC PI (\$ billion)	10.47	44.63	326.2	5.5
DC GSP (\$ billion)	20.27	106.47	301.4	5.3

Note: % ch. per year is the average annual compound rate of change.

Source: ORA, BLS, BEA. % change per year is the compound rate of growth

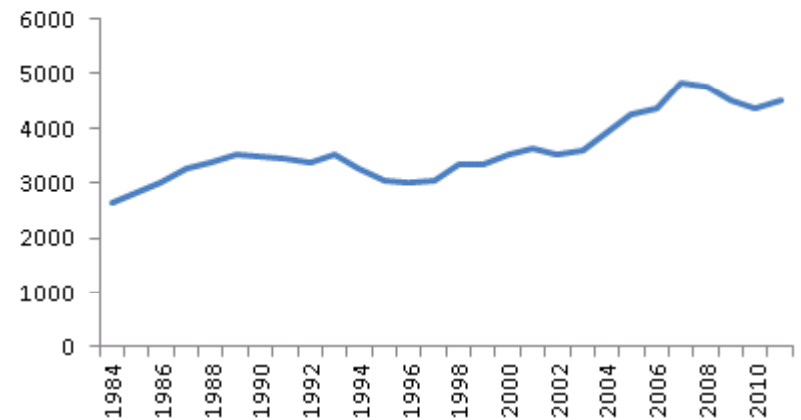
### Elasticity of Total taxes: FY 1984 to FY 2011

Elasticity of DC taxes with respect to:

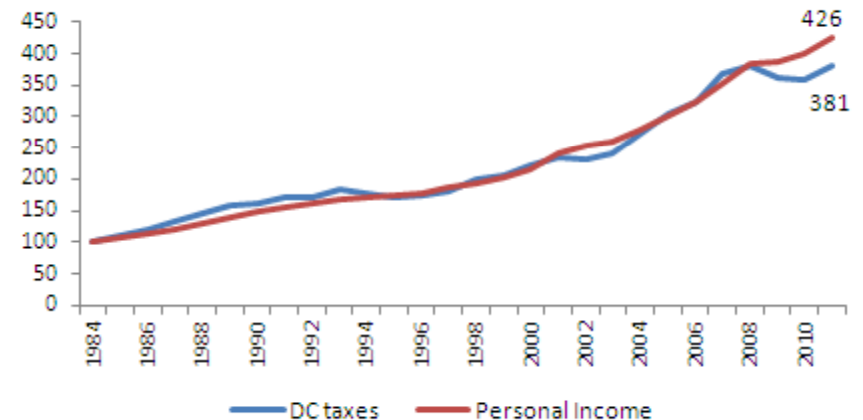
DC area CPI	DC Personal Income	DC GDP
1.54	0.90	0.93

Source: ORA, BLS, BEA. Calculations are natural log regression coefficients

Inflation-adjusted DC taxes (before earmarks) : 1984 to 2011 (In millions of \$2005)



DC taxes and DC Personal Income: FY 1984 to FY 2011 (Index number: 1984=100)





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## DC taxes: 1998 to 2011

From FY 1998 (the year the last tax revision commission issued its report) to FY 2011:

- DC's population grew almost 9%, and Personal Income and GDP doubled.
- DC's taxes increased 88.7% in nominal terms, and 33.5% adjusted for inflation.
- DC's taxes increased a little more slowly than DC Personal Income and GDP, with revenue slowdowns associated with the recessions that occurred in FY 2001 and FY 2008.
- Until the recent recession, most tax changes over the period tended to reduce revenue.

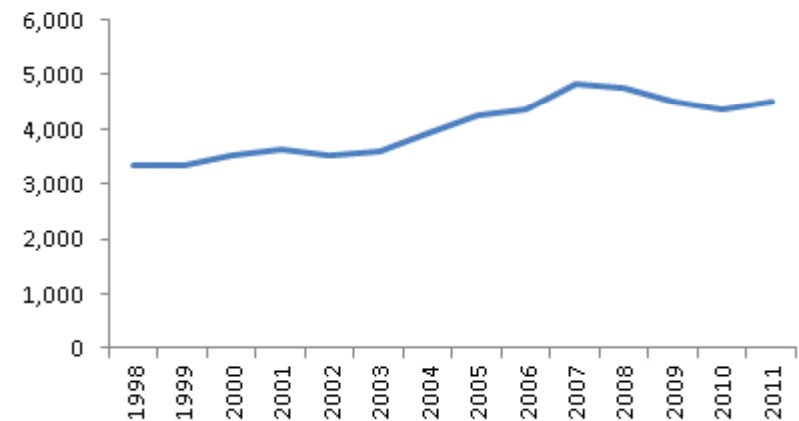
**DC taxes and economy: FY 1998 to FY 2011**

	FY 1998	FY 2011	% ch	% ch per yr.
Tax revenue (\$ million)	2,807.7	5,325.3	89.7	5.0
Taxes (millions of \$2005)	3,334.3	4,517.5	35.5	2.3
DC population	566,010	616,288	8.9	
Per capita taxes in \$2005	5,891	7,330	24.4	1.7
CPI	164.3	229.9	40.0	2.6
DC PI (\$ billion)	20.30	44.63	119.8	5.8
DC GDP (\$ billion)	51.18	106.47	108.0	5.4

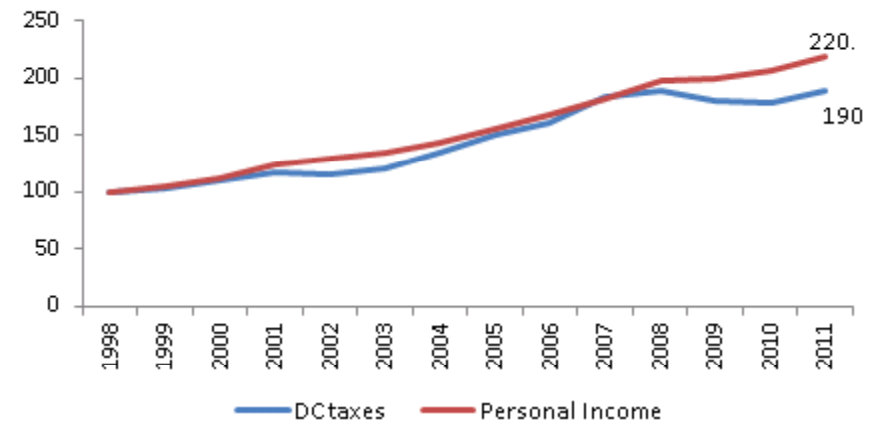
Note: % ch. per year is the average annual compound rate of change.

Source: ORA, BLS, BEA. % change per year is the compound rate of growth

**Inflation-adjusted DC taxes (before earmarks): 1998 to 2011** (in millions of \$2005)



**DC taxes and DC Personal Income: FY 1988 to FY 2011** (Index number: 1998=100)







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## Taxes from 2008 to 2012: recession's impact and recovery period

District tax revenues were adversely affected by the US recession.

- From FY 2008 to FY 2010 taxes fell by \$320 million (6.0%).
- The biggest declines over these two years were in taxes related to capital markets and business income.
  - Non-withholding for the individual income tax, which primarily reflects capital gains, fell by \$311 million—almost 90%.
  - Deed taxes, primarily related to the sale of commercial property, fell by \$98 million (30%), and business income taxes fell by \$89 million (22%).
- DC's sales taxes declined by \$38 million (4%).
- Although DC's unemployment rate rose from 6.1% in FY 2008 to 10.1% in FY 2010, earnings in the city remained fairly strong and withholding increased \$79 million (8%).
- To counter the fall in revenue, on the revenue side, the District raised the general sales tax rate to 6% (from 5.75%), raised the top individual income tax rate to 8.95% for incomes over \$350,000, delayed scheduled tax cuts, and increased fees. Expenditures were also curtailed, including no pay raises.



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## Taxes from 2008 to 2012: recession's impact and recovery period (cont'd)

In the period since the US recession ended in June 2009, revenues have rebounded. DC employment and earnings have continued to grow, and unemployment, though still high, has declined to 8.9%

- Revenues have more than recovered from the recession. Taxes for the 12 month period ending July 2012 are \$741 million (15%) above the FY 2010 –and \$388 million (7%) above the prior peak in FY 2008.
- All major taxes are above their FY 2010 level except for real property (which is just a shade below).
- For the real property tax, it took about 2 years for the recession's adverse impacts on market values to be reflected in tax bills. The real property tax decline that occurred in FY 2011 was, however, fairly small – 5.8%. The decline was modest due to relatively strong recovery in the commercial market, stabilization in residential prices, and the tax cap mechanism that allowed bills on some property to rise even when the market faltered.

**DC tax revenue (before earmarks) before and after the US recession: FY 2004 to FY 2012\***

	Level (\$million)				Change: (\$million)			% change		
	2004	2008	2010	2012*	04to08	08to10	10to12	04to08	08to10	10to12
Real property	948	1,673	1,821	1,821	725	148	-1	76.5	8.9	0.0
General sales	733	1,015	977	1,129	282	-38	152	38.5	-3.8	15.6
Individual income	1,042	1,343	1,110	1,451	300	-232	340	28.8	-17.3	30.6
<i>withholding</i>	876	995	1,074	1,302	119	79	228	13.6	7.9	21.3
<i>non-withholding</i>	167	348	37	149	181	-311	112	108.7	-89.5	305.7
Business taxes	257	413	324	442	156	-89	118	60.9	-21.6	36.4
Deed taxes	353	323	226	310	-30	-98	85	-8.4	-30.2	37.5
All other	472	557	547	648	86	-10	100	18.2	-1.8	18.3
<b>Total</b>	<b>3,805</b>	<b>5,325</b>	<b>5,005</b>	<b>5,800</b>	<b>1,520</b>	<b>-320</b>	<b>795</b>	<b>40.0</b>	<b>-6.0</b>	<b>15.9</b>

\*FY 2012 is 12 months of cash collections through August 2012 (the 11th month of the fiscal year)

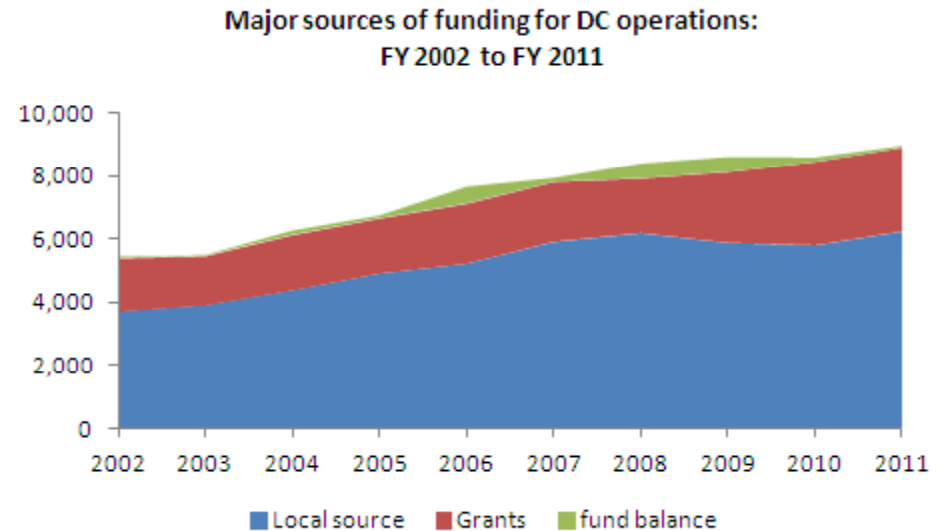
Source: ORA



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## Sources of General Fund financing: FY 2005 to FY 2011

- From FY 2005 to FY 2008 recession, Local source revenues, augmented by fund balance, financed all the growth in General Fund resources.
- From 2008 to 2011, Federal grants were virtually the only source of increased funding available for General Fund activities.



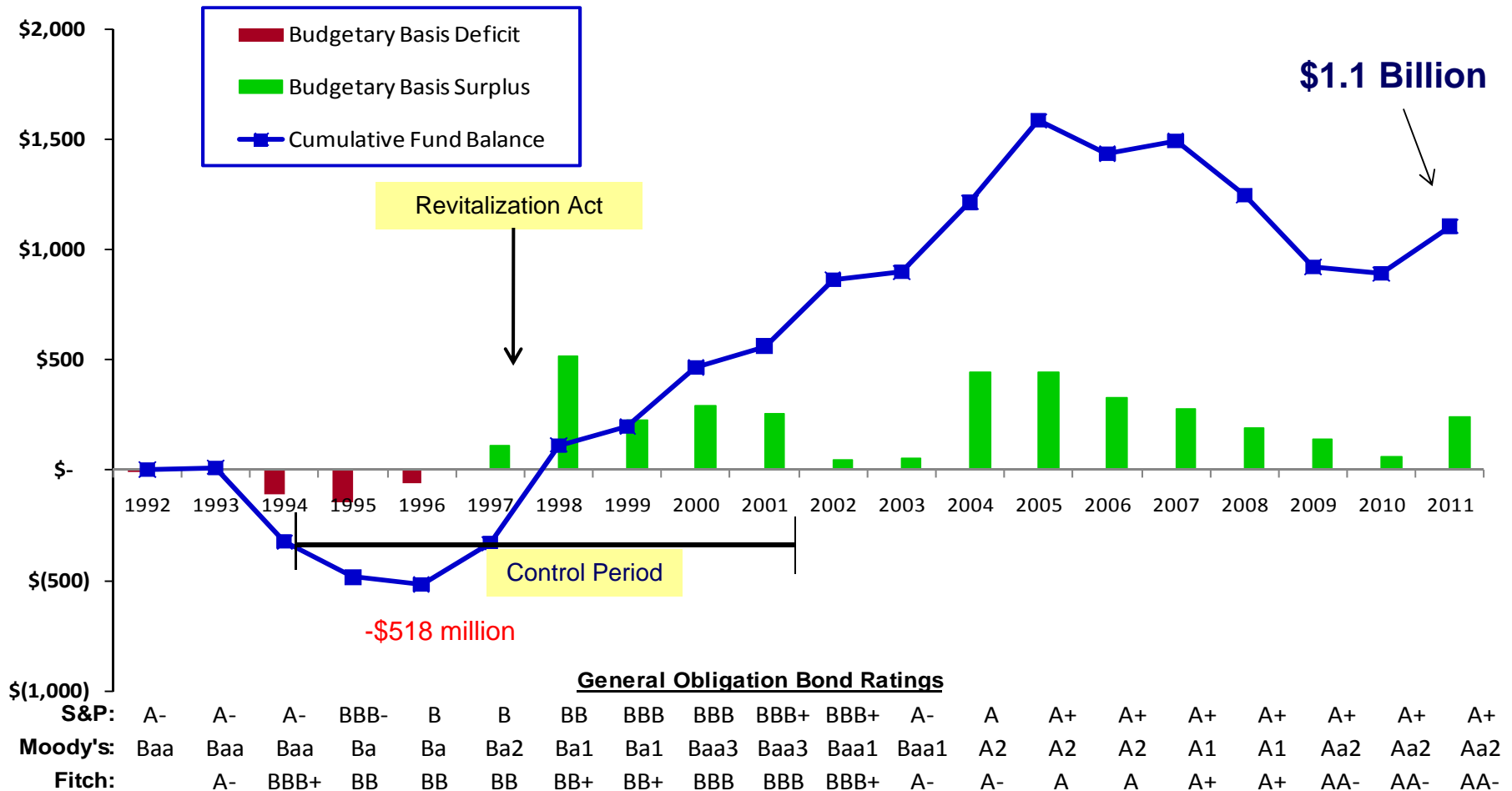
	Level (\$ million)			Amount of change:		% change:	
	FY 2005	FY 2008	FY 2011	05 to 08	08 to 11	05 to 08	08 to 11
Fund balance	81	473	56	392	-417	484.0	-88.2
Grants	1,728	1,714	2,641	-14	927	-0.8	54.1
Local source	4,924	6,202	6,254	1,278	52	26.0	0.8
Total resources	6,733	8,389	8,951	1,656	562	24.6	6.7
DC Personal Income	31,485	40,360	44,626	8,875	4,266	28.2	10.6

Source: ORA. Fund balance and Grants are from the DC Financial Plan tables. Table excludes interfund transfers and other adjustments found in the Financial Plan.



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## District of Columbia Surplus and Bond Rating History



**Income Tax Secured Revenue Bonds: S&P: AAA Moody's: Aa1 Fitch: AA+**



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## Key Debt Factors

### Current Indebtedness

- Total tax-supported debt outstanding – approximately \$8.31 billion
- Total GO Bonds outstanding - approximately \$2.69 billion
- Total Income Tax Bonds outstanding - approximately \$3.58 billion
- FY 2011 debt service costs approximately \$625.23 million (on all tax-supported debt)
- The Home Rule Act limits maximum annual debt service on General Obligation Bonds to 17% of projected revenues in the current year
- In 2009, the Council enacted a Debt Ceiling Act which statutorily limits all debt service on all tax-supported debt to 12% of General Fund expenditures, imposing much stricter limit on the issuance of debt
  - The District's currently outstanding \$8.31 billion of tax-supported debt produces a debt ceiling percentage of 9.98%
- Average FY 2011 interest rate for outstanding GO and Income Tax Secured fixed rate bonds - approx. 5.03%
- Average FY 2011 interest rate for outstanding GO and Income Tax Secured variable rate bonds - approx. 0.27%



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## Current Tax-Supported Debt Profile

The District Currently Has \$8.3 Billion of Tax-Supported Debt Outstanding as of December 2011

