

**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

September 21, 2009

The Honorable Adrian M. Fenty
Mayor of the District of Columbia
1350 Pennsylvania Avenue, NW – 6th Floor
Washington, DC 20004

The Honorable Vincent C. Gray
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW – Suite 504
Washington, DC 20004

Dear Mr. Mayor and Chairman Gray:

I would like to inform you that the revenue estimates for FY 2009-FY 2013 remain unchanged from the June 2009 certification. Although the general economic outlook has improved somewhat since the June revenue estimate, uncertainty is still great and risks remain for both the national and local economies.

Review of FY 2009 Revenue Collections through August

The report on August cash collections (see summary table below) brings decidedly mixed news on the District's revenue performance for FY 2009. On the upside:

- Withholding remains strong. Withholding tax collections are up 3.5% for the fiscal year and up 5.0% over the past 3 months.
- The deed taxes slide seems to be ending. All deed taxes down 41.2% for the fiscal year; down just 3.8% over the past 3 months.

On the downside, sales tax collections have deteriorated in recent months. Year-to-date sales tax receipts are down 4.7% for the fiscal year and down 9.7% over the past 3 months.

Whether or not revenue collections for FY 2009 meet the June revised estimate depends on the performance of the September cash collections. In particular, it depends on the performance of the September real property tax collections, which will reflect second half real property tax payments. In FY 2008, September tax collections accounted for 21.5% of total tax collections and September real property tax collections accounted for 45.8% of all real property tax collections. It is also a significant month for non-withholding individual income tax and business income tax collections because 4th quarter estimated payments are also due in September. The bottom line is that if the real property tax collections in September meet the June real property tax estimate then overall revenue collections will meet the FY 2009 estimate made in June. Second half real property tax payments are due September 15th and the report on receipts will not be available before mid-October.

Change in FY 2009 taxes (before earmarks) compared to FY 2008: June estimate compared to year-to-date collections through August

Tax source	Amount of change (\$ million)		Percent change	
	June revenue estimate	FY 2009 year-to-date (August)	June revenue estimate	FY 2009 year-to- date (August)
Real Property	130.2	40.3	7.8	4.4
General sales	-31.2	-44.2	-3.1	-4.7
Individual income	-230.4	-191.3	-17.2	-15.9
withholding	4.3	32.2	0.4	3.5
non-withholding	-234.7	-223.5	-67.5	-79.4
Corporate	-48.9	-43.5	-17.1	-19.5
UB	-19.1	-17.2	-15.0	-14.6
Deed taxes	-156.2	-113.4	-48.3	-41.2
Total	-332.7	-352.7	-6.3	-8.5

Source:
OTR/ORR

Economic Outlook

The economic outlook has improved in recent months but remains uncertain. In June, 90% of the 50 economists contributing to the Blue Chip Economic Indicators said the recession would end in the current quarter (which ends in September). The nature of the recovery, however, remains uncertain in their forecasts: About 17% of the Blue Chip respondents anticipate a sharp “V” shaped recovery, 66% a slow “U” shaped recovery, and 17% a “W” shaped recovery that relapses back into recession.

U.S. Economy

Recent economic indicators show some improvements in the U.S. economy but things remain fragile.

- U.S. employment (seasonally adjusted) declined by 247,000 from June to July, the 19th month in a row of negative job growth.
- The S & P 500 stock market index in July was up 1.0% from June, continuing a 5-month rally, but was still 25.6% less than a year earlier.
- The decline in U.S. real GDP slowed to 1.0% in the quarter ending in June 2009, the 4th negative quarter in a row.
- The recession is now the longest U.S. recession since World War II, and the 3.9% decline in real GDP during the recession makes this the deepest as well.

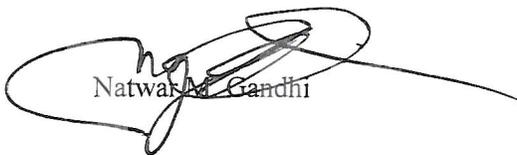
D.C. Economy

Some D. C. economic indicators also show strengths but others show weaknesses that will impact the revenue in coming months (much of this is already included in the June estimate).

- In July 2009, there were 4,800 (0.7%) more wage and salary jobs located in D.C. than a year earlier.
- D.C. resident employment in July was 15,129 (-4.8%) less than a year earlier. However, on a seasonally adjusted basis, resident employment rose by 1,951 in July, the first monthly increase in 10 months.
- D.C.'s unemployment rate in July (10.4%, not seasonally adjusted) was 0.7 percentage points above that of the U.S. (9.7%).
- July single family housing sales (contracts) continue the recent trend of higher sales and lower prices. Sales for the 3-month period in July were up 28.4% from a year ago, and the average selling prices were 16.1% lower. The average price of condominium units that sold in that 3-month period was 7.0% lower than a year earlier, and sales were 16.4% higher.
- In the quarter ending in June, the commercial office vacancy rate rose to 9.5% (including sublet), still well below the metropolitan area average of 12.1%.
- For the 3-month period ending in June, the average room-rate for hotels was 9.2% lower than for the same period a year earlier, while the number of hotel room-days sold was up 0.1%. For the 3-month period ending in June, employment in retail was down 7.2%, and while employment in accommodations was down 3.9%.

If you have any questions regarding this matter, please contact me on (202) 727-0065.

Sincerely,



Natwar M. Gandhi

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