

REVENUE

Overview

“Cautious optimism” best describes the economy and the revenue potential of the District of Columbia in the first 5 years of the 21st Century. The outlook for FY2000-FY2004 is positive with real growth in gross state product and personal income forecasted for the District’s economy. This outlook, nonetheless, is cautious with only modest improvements in most economic categories. The District is vulnerable to national economic changes such as rising interest rates that affect consumer spending for travel, automobiles, housing, and other “big ticket” items. Regionally, as the District economy becomes more competitive it also will face stronger challenges from neighboring rivals. Locally, the recovery of D.C.’s public service delivery is critical to sustaining economic development. These are all in the mix of considerations that shape the short- and long-term revenue projections. This chapter discusses the District’s revenue sources, its economy, and the outlook for revenue through FY 2004.

The FY 2001 budget, which is balanced and envisions no tax increases, is the fourth budget prepared following the congressional enactment of the District of Columbia Revitalization Act of 1997. This legislation directed the Federal government to assume responsibility for several major items previously included in the District’s budget (principally past pension liabilities, courts and corrections, and additional Medicaid funding) in return for termination of the annual Federal payment which had supplemented local revenue for over a century.

Total local-source General Fund revenue for FY 2001 is estimated to be \$3,263,011,000, an increase of 1.5% over local-source revenue for FY 2000, which is now expected to be \$3,213,859,000. Local-source general fund revenue consists of local taxes, user fees, the lottery and federal payments for scholarship and adoption programs. This total does not include grant revenue or revenue earmarked for specific uses. Such revenues are accounted for in special funds. In addition, this total does not reflect the possibility that unspent FY 2000 reserves may be carried forward to FY 2001 as revenue. The Chief Financial Officer (CFO) is required to certify at the end of each fiscal year amounts of the reserve fund available for the subsequent fiscal year. The revenue estimates mirror the cautious economic optimism forecast for the District of Columbia.

General Fund Allocable Revenue

(In millions)

	Actual FY 1998	Actual (preliminary) FY 1999	Estimate FY 2000	Estimate FY 2001
	\$3,246	\$3,075	\$3,214	\$3,263
Change	-----	(\$171)	\$139	\$49

THE ECONOMY OF THE DISTRICT IN THE LAST 10 YEARS

The District's economy took a nose dive in the last decade, with plummeting population and employment, vacant office space and housing, declining property values, and generally a loss of hope in its economic fortunes. Then, about 2 years ago, a booming national economy brought opportunity to the District and the nation. At the same time, new local leadership rekindled faith in the District as a place to live, to work, and to earn a positive return on investment. The District is beginning to recover. So far, the recovery is small and fragile, and its benefits are not distributed equally across the District. The areas of strength in the economy are only weakly connected to the District's tax base, implying that even with economic growth the District may have trouble meeting its revenue needs over the long-term.

FACTS:

- The number of people living in the District continues to decline. Between 1989 and 1999, D.C. population fell by 16% from 620,000 to 519,000 residents.¹ During the same period, the population of the Washington Metropolitan Area grew by 13%.
- **The District continues to lose its middle class.** The decline in the number of residents was not distributed evenly across income groups. District residency declined most rapidly in the two-earner married couple group; those remaining in D.C. have comparatively higher or lower incomes. The rate of decline is least for the head of household group – generally the “working poor” – and their incomes did not keep up with inflation.
- **More District residents now have jobs.** Between 1988 and 1997 the number of employed District residents fell by 25%; however, from 1997 to 1999 the number of working residents increased by about 18,000 persons, about 8%.
- **The number of jobs located in the District fell 10% between 1989 and 1998.** The District experienced this decline while the economy of the Washington Metropolitan Area grew, suggesting that the availability of economic opportunities in the region is not a fundamental problem. The drop is less harsh than the fall in population suggesting that changes affecting businesses were less severe than those affecting residents. During 1999 there was a small increase in the number of jobs in the District.
- **Real personal income per capita and per household in the District rose in the decade,** by 31% on a per capita basis and by 25% on a per household basis. Higher income individuals and households generally are much better off now than 10 years ago, pulling up the overall averages. Lower income households may have lost purchasing power.
- **The economic base of the District is changing.** The decisions to downsize employment in both federal and D.C. governments hit the District harder than other jurisdictions. In spite of² these decisions, the D.C. economy has shown some resilience, especially in service-based sectors.

¹ The change in population is dominated by a 46,700 drop in the number of 16-24 year olds, about 47%, and, secondarily, by the 24% and 31,000 decline in those aged 25-34. Other age groups are smaller by 1999, but the rate of decline is not nearly as dramatic.

² Or perhaps because of federal downsizing. One hypothesis, not yet tested, is that service sector growth is partly a matter of privatizing some activities that used to be produced by government for government use.

The Changing Economic Base

Four different stages characterize activity in the District’s economy from 1988 to 1999. The first stage of continued economic growth occurred from 1988 to 1990. This growth was followed, in 1990 to 1994, by a recession concentrated in the traditional private sectors of the economy. Downsizing of the federal and then the District governments added local economic stress starting in 1994. The District has shared a small part of the nation’s economic boom beginning in 1997.

Employment Change by Major Sector in D.C., 1988-99

	Overall Growth 1988-90	Recession 1990-94	Government Decline 1994-98	National Boom 1997-1999
Federal & Local	0.4%	-2.4%	-16.6%	-4.5%
Traditional³	-3.2%	-17.6%	-9.3%	-2.0%
Services⁴	5.6%	0.4%	3.1%	2.1%
Health & Legal Services	Growth	Decline	Rebound	Growth
Business & Technical Services	Growth	Flat	Substantial Growth	Growth
Education & Membership Services	Growth	Growth	Decline	Rebound
Hotel & Hospitality	Growth	Decline	Decline	Decline
All D.C. employment	1.9%	-4.0%	-6.9%	-0.4%

The composition of employment reveals some resistance to economic decline. D.C.’s economy is substantially organized around government activity and from 1988 to 1999 government employment fell by 19%. Yet overall employment dropped at only about half that rate.

Private sector jobs declined by 1%. Within this number, service jobs increased by 13% while non-service employment dropped by 24%. The District moved away from printing, trade, finance and real estate, and other traditional employment opportunities and toward business and professional services. By the end of the period, more people are employed in service work in D.C. than in government work.

The Position of D.C. Within the Economy of the Metropolitan Area

The District remains a substantial component of the Washington Metropolitan Area economy primarily because the service sector “held on” during the recent downsizing and out-migration of government employment. The per capita income of D.C. residents continues to be about 7% higher than in the metropolitan area and generally jobs in D.C. have higher wages than the average for the region. Today, D.C. is the site of employment for 23% of the region’s workers.

³ For D.C., primarily Construction, Transportation, Public Utilities, Communications, Wholesale & Retail Trade, Real Estate, Finance, Printing and Publishing.

⁴ Includes restaurants.

Yet the strength of the District in the region eroded in the last decade with economic growth focused in the suburbs. The District's population and employment shrank while the Metropolitan Area boomed. In 1989, for example, D.C. had 29% of all the jobs – 6% more than today. District employment declined by 10% in the period; regional employment rose 12%. D.C. lost employment share to suburban jurisdictions in all sectors. And within the region, government employment continues to be the District's greatest comparative strength; wholesale and retail trade, construction, and manufacturing continue to be the greatest weaknesses.

Recent growth in professional and other services is not yet sufficient to anchor D.C.'s competitive position in the metropolitan area. In 1994-99, service employment in the Washington Metropolitan Area grew 24%, slightly more than the 23% in the nation, and more than 4 times faster than the 5% growth in the District. In other private industries, the District is much worse off competitively, with a 7% decline in 1994-99 compared to 9% growth in the region and almost 10% in the nation. Not surprisingly, the District's loss of federal government jobs is a painful 15%; however, the loss in the metropolitan area also is large at almost 12% and for the nation these jobs dropped 8%.

Implications for Economic Development

The mystery of how to encourage economic growth and development in the District is difficult to resolve for at least two basic reasons. The first is that we often fail to identify what is meant by “economic development” -- development of what and for whom? The second is failure to understand the barriers to economic development in any particular set of circumstances – “throwing money” at a development goal, for example, often does not generate the desired result.

Development can mean many things. **First**, if workers can produce more for no more cost, then productivity is increased and should be accompanied by higher wages. **Second**, if the business owner finds a successful new product or business organization, then types of economic activity expand. **Third**, economic development happens when more workers are able to work. **Fourth**, economic development happens when lower-income households have increased opportunities and higher earnings. A **fifth** meaning is that workers and non-workers have better community life, with housing, health care, education, nutrition, safety, justice, environmental quality, and other circumstances that make life satisfactory apart from the things purchased directly with wages, profits, and other incomes.

Increased productivity – Average per capita income in the District has held its own in the period, as compared to the region. This could imply that District residents work in jobs where efficiency growth keeps up with the regional average.

Yet income distribution in D.C. is less equal now than in 1989, meaning that some people get much more income than earlier and others very little more (or even less when measured in purchasing power). The “average,” therefore, is misleading -- productivity and income rewards are unevenly spread over the resident population. In a sense, economic development occurred in a big way for a small and shrinking part of the base; for others it is hardly noticeable.

Broadening the base of economic activity -- The types of economic activity in the District are changing, with less production in the traditional and government sectors and more in the new economy of the service sector. In the last two years, while the new service economy expanded, other sectors in D.C. contracted almost as quickly.

Adding to the Base of Employment and Increasing Opportunity – While the number of jobs in the District shrank during the last 10-years, the District nonetheless remains a somewhat better place for providing employment than for providing a home. As a share of the region’s employment, the District declined in all categories in the period. Even more, the District’s total employment fell while employment was growing overall in the Washington Metropolitan Area. Adding jobs is an obvious target for economic development policy.

Adding jobs to the District is, by itself, an inefficient way of improving resident employment. The earnings of D.C. residents are roughly one-third of the income earned in D.C., suggesting that for every 3 jobs attracted to D.C., only one is occupied by a resident. However the number of employed residents would also increase if better community life could cause:

- More people who work here also to live in D.C.;
- More people in the early working years to stay here; or
- More people who live here to train for the kinds of jobs available in the District.

Better Community Life – The decline in quality of life and public services in the District is extensively documented. An echo of this loss is population decline, marked by loss of residents in prime working-age groups. The working poor are a substantial and comparatively stable group and comprise more than 20% of all D.C. income taxpayers. The monetary wellbeing of families in this category is generally worse than at the start of the 10-year period, and the public services available to them have deteriorated.

Potential to Generate Revenue to Support Service Delivery

With a smaller number of taxpayers supporting a comparatively larger number of public needs, the economic future hinges partly on the ability of economic growth to generate tax revenue for the District of Columbia. The District’s potential here is unusually narrow. The tax base is limited by extensive tax exempt property and tax exempt entities; further the District is not allowed to tax incomes earned here by non-residents. Compared to Maryland, Virginia and the U.S. generally, the District has a very constrained tax base.

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Elements of D.C.'s Tax Base Compared to Maryland, Virginia, and the U.S., 1998

	D.C.	MD	VA	US total
Taxable Income as percent of State Product	36%	96%	84%	84%
Employment Income of Residents as percent of Employment Income Earned in Jurisdiction	35%	117%	105%	100%
Retail sales as percent of:				
Gross State Product	7%	31%	33%	31%
Personal Income	19%	33%	39%	37%
Wage & Salary Employment in Sectors NOT subject to full taxation in D.C.* :				
Percent of total employment	59%	33%	30%	29%
Percent of private employment	35%	17%	14%	16%
*Employment in hospitals, nursing & personal care facilities, education and social services, non-profit organizations, federal, state and local government				

Can economic growth and development in the District release the basic constraints of the narrow tax base? The answer is not easily. One reason lies in the open nature of D.C.'s economy. Much of the benefit of economic development in the District accrues to those outside the District because it takes only a subway stop for secondary benefits to be disbursed elsewhere. Examples of total earnings throughout the D.C. or MD or VA economy from \$1 of new demand in those same jurisdictions are shown below.⁵ The example for hotels says that another dollar spent on hotel occupancy in D.C. generates total earnings in D.C. of 14 cents. If the additional dollar were spent in Maryland instead, their total earnings would be 61 cents.

\$1 New Demand in:

	D.C.	MD	VA
<u>For Products of:</u>			
	<u>Brings total earnings to same state of:</u>		
New Construction	\$0.16	\$0.69	\$0.73
Utility Services	\$0.05	\$0.50	\$0.52
Retail Trade	\$0.22	\$0.82	\$0.82
Hotels	\$0.14	\$0.61	\$0.61
Business Services	\$0.26	\$0.88	\$0.88
Health Services	\$0.25	\$0.94	\$0.94

A second reason why economic growth may not solve the revenue problem becomes clear by referring back to the type of growth occurring in the District's economy. The growth areas are in services. Some services are strong revenue generators but others are not, as illustrated by the chart below. Business taxes (franchise, personal property, sales tax remitted, Arena fee, and withholding remitted) per employee are weak in professional services. This is particularly true in businesses with partners who are not D.C. residents. Nonresident income is not subject to taxation in D.C.

⁵ These examples draw on 1989 data and are developed by the U.S. Bureau of Economic Analysis.

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These values do not imply a fixed relationship that, for example, would link a new employee in a D.C. hotel to \$6,903 additional in the tax coffers. Yet they do convey the relative power of growth in different sectors. As the economy shifts from traditional to newer service areas, the District will have a difficult time building a more secure tax base.

Direct & Indirect D.C. Tax Revenue by Industry Sector, 1997

Revenue is reported as average per job in the sector.

Direct & Indirect Revenue, reported as \$ per job	
PROFESSIONAL SERVICES	
Medical	\$ 532
Membership organizations	\$ 627
Educational organizations	\$1,233
Legal	\$1,699
Social services	\$2,096
Computer services	\$2,215
OTHER SECTORS	
Business and other services	\$3,359
Eating & drinking Establishments	\$4,406
Real Estate	\$5,691
Hotels	\$6,903
Retail other than Eating & Drinking	\$9,580
Wholesale Trade*	\$6,312
Transportation, Communication & Utilities **	\$8,446

* Does not include special sales and excise taxes.

** Does not include gross receipts tax on utility and toll telecommunications services.

THE ECONOMIC OUTLOOK

The District's economy is changing. In the last decade it has lost jobs, residents, and employment. While employment in government and traditional sectors declined, some new jobs were created in services, making this a bright spot for D.C. Another bright spot is the recent increase in resident employment and a small rebound of employment in D.C that began toward the end of 1999. Yet enthusiasm for an economic renaissance should be kept in check at least for a while because in the last 10 years the District's economy performed very poorly while the regional economy boomed. Current increases, while encouraging, are not proof of renewed competitiveness.

Neither economic growth or tax policy affects all sectors equally. Unguided by effective policies, development may not produce the tax revenue needed to support adequate, basic public services. The history of the last 10 years suggests that without adequate services, the economy will stagnate. The District will have to plan for both development and service improvements at the same time.

Short Term (Fiscal Years 2000–2001)

The national forecast is for positive real growth in GDP but lower than the average growth for 1998 and 1999.⁶ The outlook for the Washington Metropolitan Regional Economy also is favorable and in line with national trends. In May, Stephen S. Fuller, a George Mason University economist, observed that the Washington Coincident Index⁷ and the Leading Index⁸ both showed gains in March 2000.⁹ Standard and Poor's DRI anticipates that growth in the Washington Metropolitan Region will change more or less in line with the national economy.

Against the backdrop of a strong national and regional economy, the District of Columbia economy is forecast to show steady growth in FY 2000 and FY 2001, with increases in jobs and in employment of D.C. residents. Inflation-adjusted gross state product (GSP) and personal income are forecast to increase at average annual rates of 1.5% and 3.5% respectively. Activities currently underway that will boost the economy include new retail and restaurant development associated with the MCI Center, the transfer of jobs to the Navy Yard, and construction of the new Convention Center.

Long Term (Fiscal Years 2002–2004)

In looking further ahead to FY 2002 through FY 2004, the key economic issues are how much the national economy can continue to expand and the extent to which improving public services will stimulate economic development in the District. Nationally, the Congressional Budget Office (CBO), the Office of Management and Budget (OMB), and the Blue Chip consensus forecast all anticipate moderate growth from 2002 to 2004. DRI also forecasts growth in the Washington Metropolitan region to continue at about the rate of the nation as whole, although factors such as traffic congestion and the shortage of skilled labor for technology-oriented industries could restrain this growth.

Led by the service sector, jobs in D.C. are assumed to increase by about 12,000 positions during the FY 2002 to FY 2004 period; resident employment increases by about 6,000 and inflation-adjusted gross state product and personal income increase at average annual rates of 1.7% and 2.4% respectively. Growth in retail sales and housing starts are also expected and an end to the decline in D.C. population is anticipated. In the hospitality sector of the economy, sales are expected to rise during the 2001 Inauguration and again when the new convention center opens in 2003.

REVENUE IN FY 1999

⁶ The Congressional Budget Office (CBO), the office of Management and Budget (OMB) and the consensus Blue Chip forecast.

⁷ The Washington Coincident Index is derived from changes in wage and salary employment, consumer confidence, nondurable goods retail sales, and passenger boarding at National Airport.

⁸ The Washington Leading Index is derived from durable goods sales, residential building permits, consumer expectations, initial unemployment claims in the District of Columbia, and the help-wanted index. See Stephen S. Fuller, Economic Forecast, February 6, 1998, Washington Post.com.

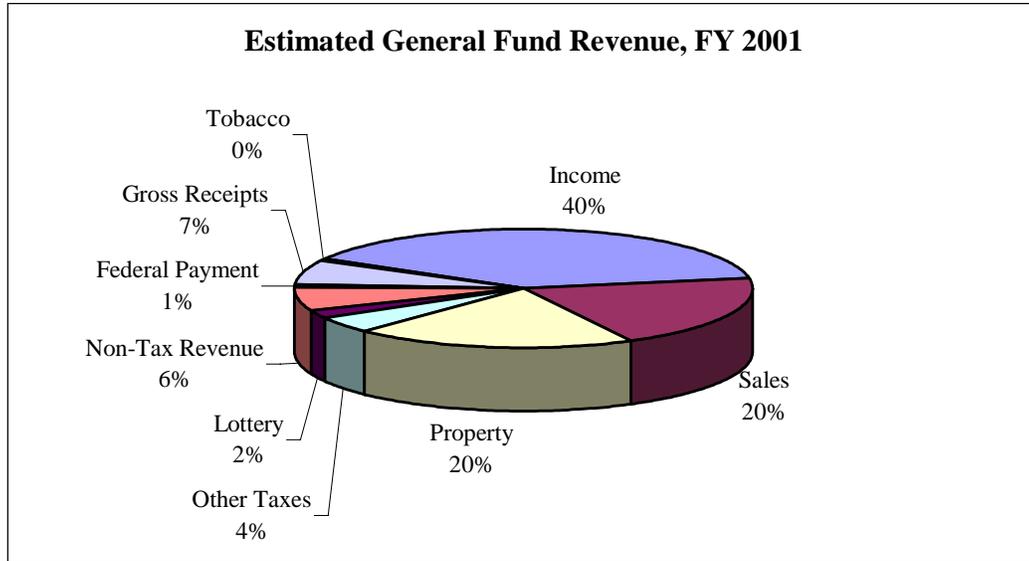
⁹ Metropolitan Washington Council of Governments, Washington Economic Index, March 2000 Data, Volume X, no. 4 (May 2000).

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FY 1999 brought overall growth in the tax revenue of 2.5% when judged by the FY 1999 adjusted revenue as presented in the Comprehensive Annual Financial Report (CAFR). Adjustments are necessary for the sales tax so that the comparison is consistent from one year to the next. An adjustment is also necessary to include the insurance tax revenue, which had a change in classification in the FY 1999 CAFR.

- The strongest growth, 12.5%, was in the deed taxes that are collected when property is sold and commercial property is refinanced. About 2/3 of all commercial property value was involved in a commercial deed transaction in the past 4 years, in contrast to about 14% in the previous 4-year period.
- Unincorporated business tax revenue grew 18% as a result of strength in the commercial property market and the change in funding formula for the convention center.
- Individual income tax revenue increased 10%, because the District had about 8,700 more employed residents (+3.6%) and because income benefits from financial markets continued to be strong.
- The sales tax bases increased more moderately, with 3.2% growth in the general sales and use tax and virtually constant bases for the public utilities and toll telecommunications gross receipts taxes after adjusting for rate reductions.
- Real property tax revenue declined over the previous year as a consequence of settling most of the remaining over-hang of court cases and the lag between the year of valuation (CY1996/7) and the collection year (FY1999).
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REVENUE IN FY 2000 THROUGH FY 2004



General fund revenue to finance operating fund expenditures for FY 2001 is estimated to be \$3,263,011,000, \$49.2 million above the FY 2000 revised estimate of \$3,213,859,000. In FY 2001, non-general fund revenue includes: Arena Fee collections, which are estimated to be \$9 million; Convention Center revenue estimated at \$54.8 million; and the Motor Fuel Tax for the Highway Trust fund estimated at \$32.2 million. Water and Sewer Authority revenue is estimated at \$248.2 million.

Conflicting considerations enter into the revenue estimate. The District's control period will end during FY 2001 only if the budgets are balanced in FY 1999 and FY 2000 and the financial statements are deemed by outside auditors to fairly reflect the District's financial position. Many new service delivery mechanisms of the District are not even conceived at this time – so their impact on the economy and on revenues is truly unknown. These factors mitigate in favor of conservative revenue estimates to protect the long-term goal of full home-rule. On the other hand, the District has critical human service, public works, public safety, education, and other needs that press for budgets based on more generous estimates.

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FY 1998 and 1999 Actual, FY 2000 – 2004 Estimates							
(\$000)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Revenue Source	Actual	Actual	Rev. (3/00)	Orig. (3/00)	Projection	Projection	Projection
Real Property	616,935	597,566	572,900	573,500	568,100	617,100	643,100
Personal Property	68,475	73,928	70,150	61,560	63,715	66,009	68,385
Public Space	10,030	8,056	9,200	9,300	9,400	9,500	9,600
Total Property	695,440	679,550	652,250	644,360	641,215	692,609	721,085
General Sales	524,878	541,573	575,000	600,000	630,500	666,300	707,500
Alcohol	4,702	4,821	4,800	4,800	4,810	4,810	4,819
Cigarette	17,592	17,107	16,765	16,430	16,101	15,779	15,463
Motor Vehicle	29,838	31,329	30,000	30,000	30,000	30,000	30,000
Hotel Occupancy	5,369	(26)	0	0	0	0	0
Total Sales	582,379	594,804	626,565	651,230	681,411	716,889	757,782
Ind. Income	861,505	952,156	1,018,800	1,033,820	1,074,389	1,106,219	1,115,483
Corp. Franchise	170,029	163,699	205,000	199,519	198,705	188,817	184,402
U.B. Franchise	45,767	53,896	56,055	57,840	60,633	59,084	58,940
Total Income	1,077,301	1,169,751	1,279,855	1,291,179	1,333,728	1,354,120	1,358,825
Public Utility	141,069	128,472	130,000	132,860	138,215	142,085	146,205
Toll Telecomm.	56,732	51,874	53,222	54,393	55,808	57,370	59,034
Insurance	37,096	26,944	31,500	32,500	33,500	34,500	36,500
Public Safety	0	0	0	0	0	0	0
Health Care	1,740	0	0	0	0	0	0
Total Gross Rec.	236,637	207,290	214,722	219,753	227,523	233,955	241,739
Estate	32,256	26,247	22,268	23,100	29,187	30,005	30,875
Deed Recordation	53,863	70,398	53,784	52,953	47,658	42,892	38,603
Deed Transfer	42,597	47,001	35,909	35,354	31,818	28,636	25,733
Econ. Interests	11,166	3,687	500	500	450	405	365
Total Other	139,882	147,333	112,461	111,906	109,113	101,938	95,616
TOTAL TAXES	2,731,639	2,798,728	2,885,853	2,918,428	2,992,990	3,099,511	3,175,047
Licenses & Perm.	48,123	46,534	40,994	37,095	41,131	38,150	42,505
Fines & Forfeits	53,177	47,688	53,276	67,716	69,216	70,416	71,416
Charges/Services	34,752	31,055	37,802	61,528	66,597	67,184	67,775
Misc. Revenue	99,136	86,740	87,134	71,033	69,064	69,460	70,006
Tobacco Settlement: 30%			16,050				
TOTAL NON-TAX	235,188	212,017	235,256	237,372	243,408	242,610	249,102
Federal Payment	198,000		23,750	38,211			
Lottery	81,300	64,225	69,000	69,000	69,000	69,000	69,000
GENERAL FUND	3,246,127	3,074,970	3,213,859	3,263,011	3,305,398	3,411,121	3,493,149
Tobacco Settlement: 70% FY00, 100% thereafter			37,899	42,036	50,473	50,940	42,523
GENERAL FUND + Tobacco Settlement	3,246,127	3,074,970	3,251,758	3,305,047	3,355,871	3,462,061	3,535,672

Note: Estimates and actuals are net of Convention Center, Arena and Highway Trust Fund revenues. Estimates include insurance premiums tax, which was omitted from the FY 1999 CAFR, exhibit A-4.

Factors Underlying Current Revenue Estimates

As discussed above, the outlook for the forecasting period, FY2000-FY2004, is positive for the District's economy with real growth in gross state product and personal income. This outlook, nonetheless, is cautious with only modest improvements in any economic category. The economic signs are good for D.C. with a continued strength in high-end office space and in the demand for single-family housing. The expected turn-around in population growth should begin in FY2001 and will exert a positive influence on the economy in succeeding years. Continued consumer confidence will help sustain sales tax revenue. Even a moderate slow-down in financial market activity probably would not directly affect taxable capital gains for 18-24 months.

Yet D.C. is vulnerable to national economic changes such as rising interest rates that affect consumer spending for travel, automobiles, housing, and other "big ticket" items. Regionally, as the District economy becomes more competitive it also will face stronger challenges from neighboring rivals. And locally, the recovery of D.C.'s public service delivery is critical to sustaining economic development. These are all in the mix of considerations that shape the long-term revenue projections.

Finally, the activity to re-engineer the Government of the District of Columbia is influencing the revenue stream. Specifically, the District has made multiple decisions to reduce tax rates, change tax bases, and improve the tax structure. Between FY98 and FY01 the estimated impact of these changes is to reduced expected FY01 tax revenue by about \$175 million. Ongoing implementation of the Tax Parity Act will incrementally reduce revenue each year until fully implemented in FY04. Policy changes to non-tax local revenue include 1) dedicating funds to specific uses -- such as support for the Public Service Commission -- so they are no longer part of the general fund and 2) implementing new programs such as the right-of-way fee and the red-light camera project. These provide a net increase in general fund revenue of about \$25 million in FY01 as compared to the FY98 base.

The long-term projections show 1.6 % growth in General Fund revenue in FY02, 3.2% in FY03, and 2.4% in FY04. These changes, which do not include any Tobacco Settlement funds, are adjusted for all policy decisions including the rolled-in tax law changes under the Tax Parity Act.

The following table sets forth the economic assumptions used in the revenue estimates.

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The Base Forecast of Economic Assumptions Underlying the Forecast

The District Economy: Key Variables for the Forecast Period: FY 1996 to FY 2004									
(Fiscal Years)	1996 actual	1997 actual	1998 actual	1999 est	2000 est	2001 est	2002 est	2003 est	2004 est
Gross State Product (\$ billion)	50.10 2.0%	51.84 3.5%	53.57 3.3%	55.84 4.2%	57.79 3.5%	60.50 4.7%	63.19 4.5%	66.22 4.8%	69.42 4.8%
Real Gross State Product (billions of \$92)	44.13 -1.4%	44.08 -0.1%	44.26 0.4%	45.10 1.9%	45.65 1.2%	46.52 1.9%	47.22 1.5%	48.03 1.7%	48.88 1.8%
Personal Income (\$ billion)	18.28 2.5%	18.84 3.0%	19.34 2.7%	20.30 5.0%	21.55 6.1%	22.59 4.8%	23.70 4.9%	24.79 4.6%	25.99 4.8%
Real Personal Income (billions of \$92)	16.80 0.7%	17.00 1.1%	17.28 1.6%	17.89 3.6%	18.62 4.1%	19.17 3.0%	19.68 2.6%	20.09 2.1%	20.58 2.4%
Per Capita Income (\$)	33,849 5.0%	35,538 5.0%	37,011 4.1%	39,091 5.6%	41,497 6.2%	43,461 4.7%	45,560 4.8%	47,418 4.1%	49,697 4.8%
Real Per Capita Income (\$92)	31,115 3.0%	32,064 3.0%	33,054 3.1%	34,449 4.2%	35,860 4.1%	36,892 2.9%	37,816 2.5%	38,430 1.6%	39,340 2.4%
Population ('000)	540.1 -2.3%	530.1 -1.9%	522.6 -1.4%	519.4 -0.6%	519.2 -0.0%	519.7 0.1%	520.3 0.1%	522.9 0.5%	523.1 0.0%
Households ('000)	230.1 -1.5%	227.7 -1.0%	225.0 -1.2%	224.3 -0.3%	226.0 0.7%	226.2 0.1%	227.3 0.5%	227.9 0.3%	229.5 0.7%
Civilian Labor Force ('000)	274.4 -4.6%	259.5 -5.4%	266.1 2.5%	270.8 1.8%	284.0 4.9%	287.4 1.2%	289.6 0.8%	291.8 0.8%	294.6 1.0%
At-Place Employment ('000)	627.5 -2.8%	619.0 -1.4%	614.6 -0.7%	614.1 -0.1%	620.8 1.1%	627.0 1.0%	629.9 0.5%	634.1 0.7%	639.4 0.8%
Resident employment ('000)	250.4 -4.6%	239.4 -4.4%	242.2 1.2%	250.9 3.6%	267.1 6.4%	270.2 1.2%	271.6 0.5%	273.7 0.8%	276.4 1.0%
Unemployment Rate	8.8%	7.7%	9.0%	7.3%	6.0%	6.0%	6.2%	6.2%	6.2%
Housing Stock Total	273.5 -0.9%	271.1 -0.9%	269.4 -0.6%	267.7 -0.6%	264.7 -1.1%	261.9 -1.0%	259.3 -1.0%	256.5 -1.0%	253.8 -1.1%
Retail Trade Sales (\$ billion)	3.39 -7.3%	3.48 2.3%	3.54 1.9%	3.72 5.1%	3.91 5.1%	4.09 4.5%	4.28 4.8%	4.49 4.8%	4.70 4.8%
Washington Area Consumer Price Change	+2.7%	+2.4%	+1.1%	+2.0%	+2.5%	+2.3%	+2.4%	+2.6%	2.7%

Source: OTR based on Standard and Poor's DRI and RFA 02/00 forecasts for the District of Columbia..

Against a background of low inflation and continued growth in the national and Metropolitan Washington regional economies, the FY 2001 Budget and Financial Plan assumes that the District's economy continues to get stronger throughout the period. Increases of about 5,000 jobs are anticipated each year through FY 2004, and the rate of nominal personal income growth in the District is expected to be about 80% to 90% of the national growth rate.

The U.S. and the Washington Metropolitan area economies are expected to grow as follows:

- Continued growth in real GDP at the national level, but at slower rates in the years FY 2001 through FY 2004 than for the years FY 1999 and FY 2000.
- Inflation below 3%.
- For the Washington Metropolitan Area, growth rates in personal income and regional product slightly above those in the U.S. economy.

For the District, the expectation is:

- Growth in nominal personal income in of 6.1% in FY 2000 and 4.8% in FY 2001. These rates are somewhat higher than the percentage increases in national GDP forecast by CBO for both years, but lower than the forecast by DRI.
- Growth in nominal Gross State Product of 3.5% and 4.7%, respectively, in FY 2000 and FY 2001.
- Growth in jobs in the District of 6,000 to 7,000 in FY 2000, and FY 2001, and lower rates of growth in each of the years following. Gains in services and retail more than offset anticipated declines in the public and other private sectors.
- An increase of 19,300 in resident employment during FY 2000 and FY 2001, with an unemployment rate of 5.9% in 2000 and 6% in 2001.
- Growth in nominal income per capita of about 6.2% in FY 2000 and 4.7% in FY 2001.
- Population decline stops during the period with a population of about 519,000 in FY 2000 and a very small increase begins in FY 2001.

In short, the forecast for FY 2001 assumes that the District economy and tax system will improve moderately, with a small measure of real economic growth and growth in tax revenue below the rate of inflation (reflecting already enacted reductions in tax rates).

Forecasting Risks

As with any predictions of the future, these will be in error; our goal is to minimize the extent of the error. Potential risks include deviations from the forecast rate of increase in GSP and Personal Income – a 1% error in each would adjust the estimates by approximately \$20 million from income and sales taxes. A recession or growth much more robust than that forecast would have a major impact on these estimates. A recession that begins immediately and deepens for some months could reduce FY 2001 revenue by a substantial amount; however, no recession of any size is forecast at this time. Alternatively, if the local economy and income grow 2% more than forecast and financial markets continue strong growth, revenue could be above the estimates. Finally, the level of voluntary compliance and the possibility of writing off receivables both have significant potential to swing revenue either up or down.

Restrictions Imposed by the Budget and Revenue Estimating Cycle

The revenue estimating cycle of the District of Columbia is both unique and cumbersome. Unlike other jurisdictions, each budget must be approved by the U.S. Congress, requiring a long lead-time between budget preparation and execution, whether the budget is original or a proposed supplement to an already adopted budget. During a budget year, if revenue is stronger than expected the District cannot adjust expenditures upward except by going through this lengthy process. Some years this can be combined with the budget submission for the upcoming year – although many months of delay in approval can limit the utility of a requested supplement. Otherwise, the District must make-do with a revenue estimate that is completed 18 or more months before the actual revenue is received. And even then, a large fraction of the revenue is actually received and accounted for after all reasonable expenditure plans are long since completed.

As a consequence, the District faces more uncertainty about revenue and expenditures than other cities and states. A lot happens in 18 months to the population, the economy, and the policy environment. Other cities and states have mechanisms for adjusting to these changes. The District would benefit by having an expeditious process for increasing expenditures in cases where revenue is greater than initially forecast.

Other taxing jurisdictions exercise their option for interim adjustments. Maryland, for example, makes an initial revenue estimate six months before the start of the fiscal year, a revision three months later, and a mid-course correction five months into the fiscal year so that expenditures can be changed if appropriate.

SPECIFIC REVENUE SOURCES

The following sections discuss specific taxes and other revenue sources and the estimates for revenue through fiscal year 2004.

PROPERTY TAXES

Real Property

The District's real property tax is similar to that imposed by local jurisdictions throughout the United States. Real property is assessed at 100 percent of its market value and taxpayers are billed twice a year. In FY 1999, 19.4% of general fund revenue came from real property taxes. In FY 2000 the percentage is expected to drop to 17.8 % of general fund revenue. The percentage of real property tax revenue appropriated to the general fund will remain relatively constant at 17.6% in FY 2001. The following table details total property tax revenue for fiscal years 1998 through 2004.

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Property Tax Revenue, Fiscal Years 1999 Through 2004						
Actual and Projected						
(\$Thousands)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Real Property	597,566	572,900	573,500	568,100	617,100	643,100
Personal Property	73,928	70,150	61,560	63,715	66,009	68,385
Public Space	8,056	9,200	9,300	9,400	9,500	9,600
Total:	679,550	652,250	644,360	641,215	692,609	721,085

There are two major differences in the District's real property tax and real estate taxes imposed by other local jurisdictions. The first difference is that in the District, properties are divided into separate tax classes. The District currently has five real property tax classifications, each of which is taxed at a different rate depending on the use of the real property. The following table shows the District's current five real property tax classes, and the tax rate associated with each:

Real Property Tax Class	Tax Rate
Class 1 (owner-occupied)	\$0.96 per \$100 value \$0.81 per \$100 value (effective rate after \$30,000 homestead exemption)
Class 2 (multi-family)	\$1.34 per \$100 value
Class 3 (hotel,motel)	\$1.85 per \$100 value
Class 4 (commercial)	\$2.05 per \$100 value
Class 5 (vacant)	\$2.05 per \$100 value

In accordance with the provisions of the Tax Parity Act of 1999, properties designated as Class 5 properties in FY 1999 and prior years were merged into real property tax Class 4 in FY 2000. As a result, real property tax Class 5 no longer exists.

Class 1 taxpayers occupying their own homes are entitled to a \$30,000 reduction in the assessed value of their property. This reduction is applied prior to calculating real property tax liability at the \$0.96 rate. Senior citizens who occupy their own homes and have a family income of less than \$100,000 is allowed a 50% reduction in their real property tax after the application of the homestead exemption.

The second major difference is that a relatively large proportion of real property in the District is exempted from paying the District's real property tax. The District of Columbia is able to levy its real property tax on approximately 58% of the total assessed value real property in the City. The remaining 42% of the District's real property tax base are exempt from the real property tax. Tax exempt properties include federally owned property, District government owned property, property owned by non-profit organizations, embassy property, cemeteries, educational facilities, and others. Discussion continues in the District of Columbia and other jurisdictions nationwide concerning taxation of property owned by non-profits focusing on finding ways in which exempt organizations can pay a "fair share" for their use of governmental resources, yet retain their special non-profit character.

Revenue

Percentage of Real Property Tax Base by Tax Status	
Tax Status	Percentage of Base
Taxable	58%
U.S. Exempt	26%
D.C. Exempt	4%
Non U.S./D.C. Exempt	12%
Total	100%

The Tax Parity Act and the Real Property Tax. The Tax Parity Act of 1999 moved toward minimizing the differences between the District's real property tax and real estate taxes imposed by other jurisdictions. The Act reduces the number of real property tax classes from five to two by FY 2002. In FY 2002, Class 1 shall consist of all residential property. Class 1 properties will be taxed at the current Class 1 rate of \$.96 per \$100 of assessed value. The homestead exemption and senior citizen reductions currently available to District taxpayers will remain. Class 2 property will consist of all property that is not residential (current classes 3, 4 and 5). Beginning in FY 2002 all class 2 property will be taxed at a rate of \$1.85 per \$100 of assessed value. It is estimated that provisions of the Tax Parity Act will lead to an estimated \$92.8 million reduction in real property tax collections by FY 2002 (as compared to what would have been collected under FY 1999 rates). These reductions, however, will be partially offset by a rebounding real property tax base, and by real property tax revenue collected from newly constructed buildings.

The first phase-in of the new rates adopted under the Tax Parity Act became effective October 1, 1999. The following table highlights changes in real property tax rates by tax class for fiscal years 1999 through 2002.

Real Property Tax Rate Changes Under Tax Parity Act of 1999					
		FY1999	FY2000	FY2001	FY2002
New Class One: Effective 10/1/02	Class 1	\$0.96	\$0.96	\$0.96	\$0.96
	Class 2	\$1.54	\$1.34	\$1.15	\$0.96
New Class Two: Effective 10/1/002	Class 3	\$1.85	\$1.85	\$1.85	\$1.85
	Class 4	\$2.15	\$2.05	\$1.95	\$1.85
	Class 5	\$5.00	\$2.05	\$1.95	\$1.85

In accordance with the provisions of the Tax Parity Act of 1999, properties designated as Class 5 properties in FY 1999 and prior years were merged into real property tax Class 4 in FY 2000. As a result, real property tax Class 5 no longer exists.

Each year the District dedicates a percentage of real property tax collections to pay the principal and interest on its General Obligation Bonds. For FY 2000, that percentage is 70%. The dedication of real property tax revenue to General Obligation Bonds may be increased by the Tax Parity Act rate reductions.

Triennial Assessment and the Property Tax Base. The District of Columbia operates under a triennial assessment system. Properties in the District are divided into three triennial groups (Tri-Groups) – each

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containing roughly one-third of all real property in the District. Under the District's triennial system only one triennial group is reassessed each year. Increases in assessed value are phased-in over a three-year cycle. Reductions in assessed value are realized immediately.

The District is two-thirds of the way through its first triennial cycle. Properties in Tri-Group One were reassessed in 1998 for TY 1999 billing. Properties in Tri-Group Two were reassessed in 1999 for TY 2000 billing. Properties in Tri-Group Three are currently being reassessed for TY 2001 billing. Of the properties reassessed in Tri-Group One, 11.6% experienced no change in their assessed value, 38.9% experienced a decrease in their assessed value, and 49.5% experienced increases in their assessed value. In Tri-Group Two, 21.9% of the reassessed properties had no change in their assessed value, 27% of the reassessed properties decreased in value, and 51.5% increased in assessed value. The following table details changes in assessed values for Tri-Groups One and Two.

Value Change by Triennial Group: Tri-Group One & Tri-Group Two

	Tri-Group One	Tri-Group Two
	58,403 Accounts	56,149 Accounts
No Change	11.6%	21.9%
Decrease	38.9%	27.0%
Increase	49.5%	51.1%

*Tri-Group Three Currently under Reassessment for TY 2001

The District's triennial assessment cycle reduces the annual growth rate of the real property tax base because increases in assessed value are not fully realized at the time of reassessment. The immediate reduction in tax liability for properties that decrease in assessed value further reduces the growth rate of the real property tax base. When combined, these factors reduce the volatility and the growth potential of the real property tax in the future. Estimated real property tax revenue reflects modest growth over the forecast period as a result.

Actual and Projected Total Assessed Value for Taxable Properties in the District of Columbia: FY 1998 – TY 2001

	TY 1998	TY 1999	TY 2000	TY 2001
Assessed Value	43,187,723	42,445,498	42,796,464	44,105,785
Percent Change		-1.75%	0.82%	2.97%

*TY 2001 Projected Base

There is evidence that the real property tax base is continuing to increase. An increased number of real estate transactions occurred in FY 1999, as reflected by large increases in deed recordation and transfer tax collections. In FY 1999 revenue from Recorder of Deeds taxes increased by 12% over FY 1998 revenues. This growth is due to a number of factors including the fact that there is renewed confidence in the District as the turnaround in its financial position continues. A new Mayor and the promise to provide more efficient municipal services will have a long-term impact upon the District's real estate market. Demand for District property has increased, as the District is perceived as a "City on the move". The District once again is becoming a desirable location to own property.

In addition, there are now federal incentives for purchase of a first home in the District of Columbia. These incentives for District home purchases are effective through December 31, 2001, and provide a

\$5,000 federal tax credit available for expenses related to the purchase of a first home in the District of Columbia. The credit can be carried over to a subsequent year if it is not all used in the year of purchase.

The following examples provide a flavor of the recent growth in the Washington real estate market:

The New Washington Convention Center. One of the major factors affecting real estate activity in the downtown is the construction of a new Washington Convention Center. The new convention center will include 2.3 million square feet, and will have an estimated value of \$500 million. The construction is expected to be complete by March 2003. A number of hotels and other development projects are planned for the area immediately surrounding the site of the new convention center. At least 3,000 hotel rooms are planned for construction or renovation during the next three years.

The Washington Convention Center is not the only large development project planned for the District of Columbia. Other development projects include a Howard University plan for a 150-block area in LeDroit Park, Edgewood Terrace in Northeast, revitalization at Logan Circle and affordable housing units in Anacostia.

Federal Government Relocations. Another sign of the growing confidence in the District's recovery is the changing trend in federal government relocations. Federal government demand for District office space appears to be increasing, reversing the exodus of earlier years. A major example of this reversal is the completion of the 3.1 million square foot Ronald Reagan Building and International Trade Center on Pennsylvania Avenue which now houses a number of federal agencies such as the Environmental Protection Agency which has relocated to the building. Other relocations and migrations to the District include the Bureau of Alcohol, Tobacco and Firearms, the Department of Transportation, the Federal Communications Commission, the Department of the Navy and the Secret Service. While these relocations may not substantially increase property tax revenue, they feed the image of a City moving forward.

New Construction. The real property tax revenue forecast includes a small increase in revenue from commercial property, and an increase from multifamily properties, due to new construction. There is a slight increase in hotel property revenues for FY 2003 in anticipation of hotel construction to accommodate visitors to the new convention center. A number of other construction projects are also underway in the District. An estimated 3.6 million square feet of commercial space was under development or renovation in the District by the end of 1999.

Tax Increment Finance Program. The District is currently authorized to issue \$300 million in tax increment finance (TIF) bonds. These bonds provide grants for private development that would not occur but for financial subsidy. TIF bonds are backed solely by incremental growth in real property and sales taxes (not already pledged for General Obligation or Washington Convention Center Authority bonds). The Office of the Chief Financial Officer plans to borrow about \$64 million in FY 2000 for a multi-use retail-entertainment-housing development at Gallery Place. The Chief Financial Officer has also pre-certified a luxury hotel project slated to be constructed at the Portals in Southwest. An additional \$35 million may be borrowed for this project in either FY 2000 or FY 2001.

Commercial Office Vacancy Rates. The forecast includes an increase in commercial property revenue as the market responds to the shortage of office space in the Central Business District (CBD). The commercial office vacancy rate in the CBD of the District of Columbia remained relatively constant at around 5.9% in 1999. The current vacancy rate in the District's CBD suggest a tight market for office space. The tight market indicates that the District is becoming a more attractive office location.

Examples include the location of Qwest Communications and XM Radio in NoMA (North of Massachusetts Avenue); expanding law firms seeking larger, Class A office spaces within the CBD; and the fact that three Crystal City based government contractors have made plans to relocate their offices to the District. ADI Technology, Anadac and TWD & Associates have leased a combined total of 80,855 square feet of office space in a new eight-story, 282,000 square foot building at 300 M Street SE. In addition, District demand, lagging that of neighboring jurisdictions, has not yet peaked, partially due to decreasing availability of affordable, contiguous space to accommodate moderate to large sized firms outside the District of Columbia.

The July 1999 Tax Sale. A total of 12,201 real property tax liens having an outstanding amount due of \$47.6 million were identified in May 1999 as having tax year 1998 delinquencies. Taxpayers were sent notices that these properties would be sold at the July 1999 tax sale. Many taxpayers responded to the notices by paying \$27.7 million in outstanding amounts due. In June 1999, the Real Property Tax Administration advertised the upcoming sale of 7,730 parcels with delinquent balances totaling \$19.9 million. Property owners paid an additional \$5.4 million in delinquent taxes in the period between the June newspaper advertisement and the July tax sale.

Of the 7,730 parcels advertised in June, 5,566 actually went to tax sale. Of these parcels 2,941 were sold during the tax sale. Collections on the sale of these parcels equaled \$8.1 million. The remaining 2,625 parcels with an outstanding \$6.3 million due were not sold during the tax sale.

Personal Property Tax

The personal property tax is imposed on the depreciated value of all tangible personal property used in a trade or business (computers, vehicles, etc.) except for inventories held for sale. Renewed strength in the District's economy has been accompanied by higher investment in personal property used for commercial purposes. Revenue from the personal property tax is expected to fall from \$73.9 million in FY 1999 to \$70.2 million in FY 2000 and \$61.6 million in FY 2001. These reductions are the result of the Tax Parity Act of 1999 which excluded the first \$50,000 in taxable value and accelerated depreciation for computer equipment. Accelerating the depreciation of computer equipment is a move designed to make the District more competitive with surrounding jurisdictions, which allow more rapid depreciation of such equipment.

Additional modeling has been undertaken to improve the personal property tax forecast. Economic analysis suggests that collections from this tax are sensitive to three main factors: the tax rate; the change in the gross state product; and the prime rate. For instance, one economic model indicates that a decrease in the tax rate by one percent will increase collections by 3.3 percent. Models also show that as the gross state product increases, collections from this tax increase as well; the increase is almost one-for-one. Finally, the analysis reinforces the intuition that as the prime rate increases, making money more expensive, businesses tend to invest less, meaning that there is less property subject to this tax in the tax base. The models predict, for instance, that a drop in the prime rate from 8.5 percent to 8.0 percent should increase personal property tax collections by about \$1.4 million per year.

Public Space Rental

There are three categories of public space rentals, each representing a relatively constant proportion of the total levy since tax year 1994: vaults, sidewalks, and fuel oil tanks. Despite slight, annual increases in the number of public space rental accounts, total public space rental levies have declined progressively in recent years. Based on the tax year 2000 bills already distributed, there will be a decrease of 14.5% as

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compared with a 19% decline in TY1999. There are 1,300 accounts owing a total of \$10 million for TY2000, compared with \$11.6 million levied in TY1999. This TY2000 decline is largely due to the decreased levy on vaults. Since vaults represent more than 90 percent of the total public space levy for TY2000, decreases in the adjusted tax rates for vaults and the three-year assessment process have led to a moderate decline in the total public space rental levy. Since public space rental assessments are conducted one year before the taxes are due, the recent buoyancy in the local real property market should be reflected in TY2001 as a reversal of the progressively downward trend.

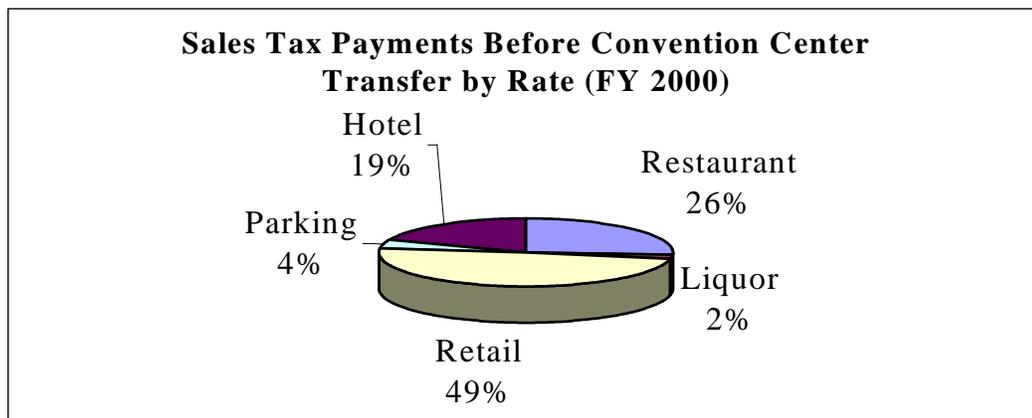
Vaults are underground areas that extend wider than an owner's property to spaces beneath the surface of public real property. Vaults include areas under sidewalks and streets that are used for underground parking lots, storage, and department store basements. Comprising more than 94 percent of the total public space rental levy since FY1994, the total levy for vaults declined from \$14.4 million in TY1994 to \$10.1 million in TY1999. The levy is expected to decrease to \$9.4 million in TY2000. The public space rental fee for a vault is determined by multiplying the vault area by two factors. First, there is an adjusted tax rate that is based on the value of nearby land sales. Second, there is a percentage based on the level of the underground vault. For example, the first level of underground parking pays 1.5% of the area times the adjusted tax rate; all deeper levels pay 0.375% of the area times the adjusted tax rate.

Public space rentals of sidewalks include enclosed cafes, unenclosed cafes, and merchandise display areas such as extensions of used car lots. The public space rental rates are \$10 per square foot of enclosed cafe space, \$5 per square foot of unenclosed cafe space, and, for sidewalk displays of merchandise, the public space rental fee is 7% of the total area times the adjusted tax rate determined by the assessor. Comprising more than 5 percent of the total levy since TY1994, the TY2000 estimate is approximately \$0.8 million up from \$0.7 million in TY1999.

Fuel oil tanks are areas used for tanks that hold heating fuel. The public space rental of fuel oil tanks has been 0.02 percent of the total levy since TY1994. Although the number of fuel tanks is the same for TY1996 through TY1998, decreases in vaults and sidewalk rentals have caused fuel tanks to expand to 0.03 percent of the TY2000 levy. The annual public space rental fee is \$25 per tank. The TY2000 levy is expected to increase from \$3,300 in TY1999 for 132 tanks to \$3,325 for 133 tanks.

Sales And Excise Taxes

General Sales and Use Tax



Government of the District of Columbia

COMING TOGETHER, WORKING TOGETHER, SUCCEEDING TOGETHER

Revenue

In FY 1999 sales and use taxes, net of the Convention Center transfer, represented the third largest source of D.C. revenue, making up 17.6% of total local-source revenue. General sales and use taxes are imposed on the sale or consumption of tangible personal property or services within a taxing jurisdiction. The sales and use tax applies to businesses on their purchases of supplies and equipment as well as to a wide range of ordinary consumer purchases. It is estimated in other jurisdictions that 40% or more of the tax is levied on purchases by businesses for their own use.

Revenue from the District's sales and use tax is collected using a five-tier rate structure. Sales of tangible personal property and certain specified services are taxed at 5.75%. Sales of alcoholic beverages for consumption outside the premises are taxed at 8%. Sales of food and drink for immediate consumption, the rental or leasing of motor vehicles and sales of prepaid phone cards are taxed at 10% (1% supports the Convention Center Authority). Parking and storing of vehicles are taxed at 12%. Transient accommodations are taxed at 14.5% (4.45% supports the Convention Center Authority). The multiplicity of rates, with special exemptions provided at each rate, complicates the administration of the tax for OTR and for businesses, such as hotels and food stores, where transactions may involve several tax categories.

General Sales & Use Tax Rates	
Item	Sales Tax Rate
General Retail Sales	5.75%
Alcohol (off-premise consumption)	8.00
Restaurant Meals, Auto Rentals & Prepaid Phone Cards	10.00*
Commercial Parking	12.00
Hotel Room (effective 10/1/98)	14.50**

* 1% earmarked for the convention center

** 4.45% earmarked for the convention center

Sales and use taxes increased moderately between FY 1989 and FY 1999, although they have not in general kept pace with inflation. Taxable sales fell in relation to gross state product over the 1989 – 1996 period.¹⁰ The erosion of the tax base is associated in part with increases in consumption of nontaxable professional services, i.e., legal, accounting and medical services. Other factors include shifts of purchases outside the District, increases in exemptions, and difficulties in the assessment and collection of use taxes.¹¹

¹⁰ For a comprehensive analysis of the sales and use tax see William F. Fox, *Sales Taxes in the District of Columbia: Current Conditions and Policy Options*, Prepared for the District of Columbia Tax Revision Commission (September 1997): 18-22. The paper shows that in 1989 taxable sales in the District represented 43% of personal income. By 1996 this figure declined to 34.6%; they also fell in relation to D.C. gross state product over the period.

¹¹ Estimates based on audit results show that as much as two-thirds of the District's compensating use tax was probably under-reported during the period 1982-1996. Of approximately \$624 million of audit-adjusted taxable use for the period 1982-1996, only \$256 million was voluntarily reported, a gross compliance rate of 41%.

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The revised forecast for the general sales and use tax increases estimated FY 2000 collections to \$575.0 million, net of revenue dedicated to the Convention Center Authority. Moderate growth in sales tax collections is anticipated in FY 2001. This expectation reflects improving conditions in tourism-related business dampened by two factors: (a) the growth in Internet sales which is estimated to reduce FY 2000 sales tax revenue by \$0.75 million, rising to \$1.6 million by FY 2001, and (b) new federal government procedures for paying travel expenses which will reduce tax collections by an estimated \$7.0 million annually.

A study prepared for the D.C. Tax Revision Commission by William F. Fox, professor of economics at the University of Tennessee, found that the District's sales tax base is a smaller share of personal income than in the average state. The study also noted that the relative decline of the District's tax base in the 1990s has been "remarkable". He observed: "Perhaps the most significant finding in this report is that sales taxation has been a less productive source for D.C. in the 1990s than in the previous decade."¹²

Fox also observed that it is "unclear" whether sales tax revenue growth will return to the pattern of the 1980s, or continue the slow growth pattern of the 1990s. While there are no obvious quick fixes to the problems of the 1990s that will cause revenue performance to return to the pattern of the 1980s, Fox said "better administration is a key to improved revenue growth."¹³ The Office of Tax and Revenue has been striving to improve the administration of this tax, particularly in the area of collections.

General retail sales comprise two-thirds of the tax base and account for about half of the revenue. The remaining half of the tax is paid by those categories, such as hotels and restaurants, where the tax rates are higher. In 1999, the base of the sales and use tax was \$7.7 billion. Of total collections of \$593.5 million, \$542.4 million was deposited into the General Fund and \$51.1 million into the convention center fund.

Estimated Sales Tax Base and Payments by Tax Type, FY 1999						
(In Millions)	Retail	Liquor	Restaurant	Parking	Hotel	Total
Base	5,001.4	164.3	1,557.4	192.6	786.0	7,701.7
Rate	5.75%	8%	10%	12%	14.5%	
Collections	287.6	13.1	155.7	23.1	114.0	593.5
Convention Center Transfer			16.2		34.9	51.1
General Fund	287.6	13.1	139.5	23.1	79.1	542.4

Note: Preliminary Cash Collections, includes use tax. Source: OTR

In recent years there have been noticeable changes in the major components of the tax base of the sales and use taxes. In the period from FY 1995 to FY 1999, the tax base for all components except off-sale liquor grew at rates above inflation. Hotel and restaurant sales over the period reflect increased hotel occupancy rates and retail activity around the MCI Center. General rate sales growth appears to reflect increased business activity in the District.

¹² William F. Fox, "Sales Taxes in the District of Columbia: Current Conditions and Policy Options," paper prepared for the District of Columbia Tax Revision Commission, September 10, 1997. The report is available on the Commission's web site at www.dctrc.org, page 1.

¹³ Ibid., p. 24.

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Change in Reported Taxable Sales by Rate Category: FY 1995 to FY 1999 (Dollar amounts in millions)

	Sales tax rate category				
	General 5.75%	Liquor 8%	Restaurant 10%	Parking 12%	Hotel 13%
1995	\$3,845.0	\$153.2	\$1,270.0	\$173.4	\$601.8
1999	\$5,001.4	\$164.3	\$1,557.4	\$192.6	\$786.0
% change	30.1%	7.2%	22.6%	11.1%	30.6%

Note: inflation increased by 9.9% from September 1994 to September 1999.

Source: Office of Tax & Revenue

As evident in FY 1997, 1998 and 1999 collections, a somewhat stronger District economy and improved tax administration are having a positive impact on revenue. During the period of the financial plan, it is projected that reported sales in the components of the sales tax related to the hospitality industry will grow more than the rate of inflation, and that general sales will increase at a rate slightly above the increase in gross state product. In addition, over the period from FY 1998 to FY 2000, revenue will increase due to improvements in the District's ability to collect the taxes that are owed.

General Sales and Use Tax General Fund Revenue, Fiscal Years 1999-2004 (Net of Convention Center Fund Transfer)

(\$ Thousands)	FY1999	FY2	FY2001	FY2002	FY2003	FY2004
General Sales and Use	541,573	575,000	600,000	630,500	666,300	707,500

Excise Taxes

In addition to the multi-rate general sales and use tax, the District imposes excise taxes on alcoholic beverages, cigarettes, motor vehicles, and motor fuel. Effective October 1, 1998, the District repealed the hotel occupancy tax. The motor fuel tax is routed directly to a special account to match federal highway funds. As a result, motor fuel tax revenue is not considered part of the General Fund for budgetary purposes. Each of the excise taxes is subject to separate forecasting.

Selective Sales and Excise Tax General Fund Revenue, Fiscal Years 1999-2004

(\$ Thousands)	FY1999	FY 2000	FY2001	FY 2002	FY 2003	FY 2004
Alcoholic Beverages	4,821	4,800	4,800	4,810	4,810	4,819
Cigarette	17,107	16,765	16,430	16,101	15,779	15,463
Hotel Occupancy	-26	0	0	0	0	0
Motor Vehicle Excise	31,329	30,000	30,000	30,000	30,000	30,000
Total Selective Sales and Excise (1)	53,231	51,565	51,230	50,911	50,589	50,282

(1) Excludes Motor Vehicle Fuel tax because it is not a General Fund revenue source.

Alcoholic Beverage Tax. The alcoholic beverage tax is forecast to remain relatively constant during the next several years. Decreased consumption due to a declining population is expected to offset most of the

Revenue

growth in consumption related to expanding tourism. The alcoholic beverage tax is levied on wholesale sales of beer, wine, and liquor in the District. The tax rates vary by type of product.

Cigarette Tax. Cigarette consumption has been declining for some time due to a variety of factors, including greater awareness of health issues. One impact of this trend is that revenue from the cigarette tax continues to fall and will do so for the foreseeable future. The forecast for the cigarette tax is somewhat more uncertain than in the past due to a lack of information about the impact that recent substantial price increases may have on demand in the District. The District's tax rate of \$0.65 per pack is already one of the highest in the nation and it is not clear how sensitive District smokers are to further price increases. However, changes in Federal taxation of tobacco products (i.e., the planned increase in the federal tax per pack of cigarettes to \$0.39 by FY 2002) and price increases due to the tobacco tax settlement will probably dampen demand by increasing prices.

Motor Vehicle Excise Tax. The motor vehicle excise tax is imposed on the issuance of every original and subsequent certificate of title on motor vehicles and trailers. The tax is 6% of fair market value for vehicles under 3,499 pounds and 7% of fair market value for vehicles over 3,500 pounds. As of October 1, 1998, new residents titling their previously out of state vehicles are no longer required to pay the tax. Despite legislative changes, collections of the motor vehicle excise tax exceeded FY 1999 levels by 5%. The growth in revenue is most likely due to an increase in overall vehicle sales in general, and sport utility vehicles in particular. Revenue is expected to decline slightly and then remain constant due to increasing interest rates and fuel prices.

INCOME TAXES

The individual income, the corporate franchise and the unincorporated business franchise taxes are significant sources of District tax revenue. Collectively, these taxes represent 38.0 percent of FY 1999 local source revenue. Revenue for these sources is summarized in the table below. The figure for FY 1999 is a preliminary actual while the figures for FY 2000 and beyond are forecasts.

Income Tax Revenue, Fiscal Years 1999-2004						
(\$ Thousands)	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Individual Income	952,156	1,018,800	1,033,820	1,074,389	1,106,219	1,115,483
Corporation Franchise	163,699	205,000	199,519	198,705	188,817	184,402
Unincorporated Business Franchise	53,896	56,055	57,840	60,633	59,084	58,940
Total Income Taxes	1,169,751	1,279,855	1,291,179	1,333,728	1,354,120	1,358,825

Individual Income Tax

The individual income tax, the District's largest single source of tax revenue, accounted for about 31 percent of General Fund revenue in FY 1999. The tax is levied on all individuals who maintain a permanent residence in the District at any time during the tax year or on those who maintain a residence for a total of 183 or more days.

Revenue

The tax is currently applied progressively to net taxable income as follows:

Net Taxable Income	Marginal Tax Rate, TY 2000	Marginal Tax Rate, TY 2001
\$0 - \$10,000	5.0%	5.0%
Middle Bracket	\$500 + 7.5% on amounts from \$10,000 to \$20,000	\$500 + 7.5% on amounts from \$10,000 to \$30,000
Top Bracket	\$1,250 + 9.5% on amount over \$20,000	\$2,000 + 9.3% on amount over \$30,000

Source: Office of Tax and Revenue

These rates are lower than the corresponding rates last year and mark the initial reductions called for by the Tax Parity Act of 1999. The Tax Parity Act will reduce individual income tax rates and change the threshold for the top bracket over a five-year period. Individual income tax rates are scheduled to be reduced from 6% to 4% for the first \$10,000 of net taxable income, to be reduced from 8% to 6% for the next \$10,000 taxable income and to be reduced from 9.5% to 8.5% for the top rate. The taxable income level at which the top rate applies will also be raised from \$20,000 to \$40,000. All these changes are phased-in over a five-year period from FY 2000 through FY 2004. All rate reductions will be stopped if economic growth and the District's fund balance fall below critical levels as established in the Tax Parity Act.

Individuals exempt from the District's personal income tax include; elected officers of the federal government, presidential appointees subject to confirmation by the U.S. Senate, justices of the United States Supreme Court not domiciled in the District, employees on legislative staffs who are *bona fide* residents of the state of their elected officer, and all persons working in the District but living outside the District.

Corporate Franchise and Unincorporated Franchise Taxes

The District's franchise tax is imposed on all corporations and unincorporated businesses having nexus in the District of Columbia. The tax liability is determined by multiplying the rate of 9.975% by the net taxable business income that is apportioned to the District of Columbia. Business income is apportioned to the District of Columbia based on a three-factor formula -- sales, payroll, and property -- with each factor weighted equally.¹⁴ When this apportionment formula does not fairly represent the extent of the taxpayer's business activities in the District, the taxpayer may petition for consideration of (or the Office of Tax and Revenue may require) a different formula.

The minimum tax liability is \$100. Income from unincorporated businesses with annual gross receipts of \$12,000 or less is not included in the taxable base. Also excluded from the taxable base is income from nonresident-owned unincorporated businesses that provide professional services. For taxable unincorporated businesses, owners are allowed a 30 percent salary allowance along with a \$5,000 exemption. When 80 percent or more of the entity's income is derived from personal services, the unincorporated business income is taxed under the individual income tax.

¹⁴ The sales factor is the ratio of the taxpayer's sales in D.C. to total sales; the payroll factor is the ratio of payroll in D.C. to total payroll; and the property factor is the ratio of the taxpayer's property in D.C. to total property.

Revenue

The Tax Parity Act reduces franchise tax rates from the current 9.975% to 9.0% in FY 2003 and to 8.5% in FY 2004. The provision will reduce franchise tax revenue by an estimated \$16.7 million in FY 2003. Other provisions of the Tax Parity Act eliminate carry-back of net operating losses and change the net operating provisions so that they are District-specific, with no expected revenue impact in the planning period. These two provisions became effective January 1, 2000.

Corporate Franchise. The District expects to collect approximately \$205.0 million in FY 2000 and \$199.5 million in FY 2001 from the corporate franchise tax. This pattern has three components:

- Tax collections in the District closely mimic the level of corporate profits. The Congressional Budget Office forecast expects a reduction in corporate profits nationwide in FY 2000 and FY 2002.
- The impact of the changes under the Tax Parity Act cause a reduction in expected collections in the out-years of the forecast.
- FY 2000 collections are abnormally large due to a large settlement with a taxpayer at the beginning of the FY 2000 tax year, which will not be repeated.

Economic research has found that this revenue source is closely correlated with federal corporate tax collections and resident employment, both at one-year lags. It is interesting to note that one economic model indicates that each additional job held by a District resident corresponds to an increase of \$1,303 in net corporate franchise tax collections.

Unincorporated Business Franchise. The District expects to collect approximately \$56.1 million in fiscal year 2000 and \$57.8 million in fiscal year 2001 from the unincorporated business franchise tax. Research indicates that collections from this revenue source are affected by corporate profits, resident employment and personal income growth. Revenue in the out-years (FY 2002 through FY 2004) are assumed to reflect growth rates adopted by the Congressional Budget Office for growth in corporate income tax receipts, although the correspondence is not one-for-one. The softness in corporate profits over the forecast horizon is offset to some extent by expected growth in personal income.

GROSS RECEIPTS AND OTHER TAXES

Gross Receipts and Other Taxes, Fiscal Years 1999-2004						
(\$ Thousands)	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Public Utilities, Local Telephone Service, Cable Television, Heating Oil, and Natural Gas	128,472	130,000	132,860	138,215	142,085	146,205
Toll Telecommunications and Commercial Mobile Service	51,874	53,222	54,393	55,808	57,370	59,034
Insurance Premiums	26,944	31,500	32,500	33,500	34,500	36,500
Estate Tax	26,247	22,268	23,100	29,187	30,005	30,875
Deed Recordation	70,398	53,784	52,953	47,658	42,892	38,603
Deed Transfer	47,001	35,909	35,354	31,818	28,636	25,773
Economic Interests Transfer	3,687	500	500	450	405	365
Total Gross Receipts and Other Taxes	354,623	327,183	331,659	336,636	335,893	337,355

Gross Receipts Taxes

The District of Columbia imposes a 10 percent gross receipts tax on utilities operating in the District of Columbia. In addition, similar taxes are imposed on heating oil companies, natural and artificial gas marketers, long distance telephone companies, and subscription television, video, and radio service providers. The District also imposes this tax on local telephone companies and wireless telecommunications providers. The traditional regulated utilities pay the bulk of the revenue associated with these taxes.

In FY 2000 and 2001, public utility gross receipts tax revenue is expected to increase slowly. Greater competition in the energy market is likely to place downward pressure on prices. However, weather patterns also have a significant impact on these receipts, as cold periods bring higher natural gas utilization while heat waves result in heightened electricity consumption. The telecommunications sector will continue its transformation, with businesses competing for local phone service, wireless Internet access, and other new services in bundled packages.

The toll telecommunications tax, which consists of taxes on the long distance and wireless telecommunications markets, declined significantly in FY 1999. Although the primary cause of this decline was a change in the effective tax rate, other factors appear to be at play. The decline in revenue is fully attributable to the long distance market. It may be the result of the use of cellular phones by individuals with phones that have billing addresses outside the District. In addition, the use of E-mail may be dampening spending on long distance calls.

Insurance Premiums Tax

The District experienced strong collections from the insurance premiums tax in FY 1997 and FY 1998. Sharp increases in stock prices were reflected in executive compensation resulting in more annuity and life insurance purchases by and for executives. The insurance premiums tax rate and payment methods changed effective in FY 1999. The changes include a reduction in the tax rate from 2.25% to 1.7% and two annual payments rather than four. The insurance premiums tax base has also been modified. All these changes resulted in a reduction of the insurance premiums tax from \$37.1 million in FY 1998 to \$26.9 million in FY 1999. Revenue is expected to increase at about the rate of inflation for the FY 2000-2004 period.

Deed Recordation and Deed Transfer Taxes

The deed recordation tax and the deed transfer tax are each calculated as 1.1% of the consideration or fair market value of every arms length real property sale. Unlike deed transfer taxes, deed recordation taxes must be paid on any increased value when commercial property is refinanced. In response to continued strong regional economic activity during 1999, the residential and commercial property markets performed at record levels. Commercial property owners continued a trend first noticed in 1997 to refinance property without transferring the deeds to other owners. These transactions account for approximately 20% of the combined deed recordation and deed transfer tax revenues. The federal income tax credit for first time homebuyers in the District continued to spur growth in residential home sales and may account for an estimated 18% of deed tax revenue.

Revenue

Commercial transactions constituted an estimated 51% of deed tax revenue during FY 1999. Revenue from commercial sales transactions declined by 4% compared to FY 1998, due in large part to a decline in the economic interest tax. This trend mirrors what local commercial real estate firms have been observing: REITs (Real Estate Investment Trusts) have slowed investments due to rising interest rates, while building sales continue to keep pace with 1998 levels.

Revenue from residential transactions grew by 20% compared to FY 1998. The growth in home sales may be attributable to the federal income tax credit for first time DC homebuyers, lower interest rates, and perceptions of the District as a desirable place to live. Revenue from refinance transactions grew by 53% compared to FY 1998 due in large part to lower interest rates and a strong commercial property market. Indications from early FY 2000 collections data are that deed taxes are falling from FY 1998-1999 levels. The FY 2000-2004 deed tax estimates reflect a slowdown in local real estate activity caused to some extent by Federal Reserve Policy of raising interest rates.

Economic Interests Tax

The economic interests transfer tax is triggered by a sale of interests in property, which includes two elements. These elements are 1) 80% of the assets of a corporation being transferred consist of real property located in the District of Columbia; and 2) more than 50% of the controlling interest of the corporation is being transferred. If these two elements are met then the tax rate is 2.2% of the consideration. Revenue from the economic interest tax declined 67% in FY 1999 compared to FY 1998 due in large part to a slowdown in real estate investment activity.

Economic interests' transfers are normally very large and occur infrequently. There can be a long period of time leading up to the final payment of the economic interests tax as corporate lawyers and the Recorder of Deeds determine exemptions and liability for the tax.

NON-TAX REVENUES AND LOTTERY

Local non-tax revenue includes licenses and permits, parking and traffic fines, charges for services, interest income, and other revenue sources. Collectively, this revenue makes up approximately 3% of the District's local-source General Fund revenue in FY1999. Further detail is shown in the Supporting Detail/Appendices.

Non-Tax and Lottery Revenue, Fiscal Years 1999-2004						
(\$ Thousands)	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Licenses & Permits	46,534	40,994	37,095	41,131	38,150	42,505
Fines & Forfeitures	47,688	53,276	67,716	69,216	70,416	71,416
Miscellaneous	86,740	87,134	71,033	69,064	69,460	70,006
Charges for Services	31,055	37,802	61,528	63,997	64,584	65,175
Tobacco Settlement (30%)		16,050				
Legalized Gambling	64,225	69,000	69,000	69,000	69,000	69,000
Total Non-Tax Revenue	276,242	304,256	306,372	312,408	311,610	318,102

Revenue

FY 1999 non-tax revenue was somewhat below FY 98 levels. Several factors are responsible for the reduction in FY 1999 of non-tax revenue:

- Revenue from traffic fines declined 10% compared to FY 1998 levels due to a 30% decline in ticket issuance. The ticket issuance decline was brought about by staff shortages and an emphasis on a “more friendly” parking atmosphere.
- Interest income was lower in FY 1999 than in FY 1998.

Revenue

Factors that increased non-tax revenue in FY 1999 included the following:

- Miscellaneous revenue from disposition of unclaimed property was very high in FY 99, surpassing FY 98 levels by 17%.
- Parking meter collections were \$5.7 million above FY 1998 as a result of the installation of 15,000 new parking meters in the District. Meter collections are anticipated to generate around \$13 million per year.

Factors that will increase non-tax revenue in FY 2000 and FY 2001 include:

- Traffic fines will increase by \$9.5 million in FY 2000 and \$7.5 million per year thereafter due to the Metropolitan Police Department's red light camera program.
- Interest income is expected to remain constant with FY 99 levels and generate \$41.3 million in FY 00. Interest income should then decline to approximately \$26.3 million per year after the control period expires and revenue retained by the Financial Control Board becomes general fund revenue.
- The right-of-way fees will be increased from current levels in FY 2001, generating an additional \$23.3 million for a total revenue of \$30 million in FY 2001.
- An increase of 47 parking control aides will generate an expected \$11.0 million in additional fines for FY 2001.
- An increase of 15 taxicab inspectors is expected to generate \$1.4 million in additional FY 2001 revenue.
- An initiative by the Inspector General is expected to result in \$2.5 million in additional general fund revenue from recovery of fraudulent Medicaid payments for FY 2001.

Factors that will offset the increase in FY 2000 and FY 2001 collections from non-tax revenue include:

- Transfer of the rental accommodations fee and related revenue to a rodent control fund from the general fund will reduce general fund revenue by \$2.0 million in FY 2001.
- Cable television revenue will no longer be part of the general fund, reducing charges for services by \$2.0 million annually effective for FY 2000.
- Miscellaneous revenue from disposition of unclaimed property was very high in FY 1999 (\$31.5 million) due to intense audit activity and sales of unclaimed securities and other properties. A concerted effort will be made in FY 2000 and 2001 to return unclaimed property to the rightful owners, which will result in reductions in this revenue source.
- Corrections reimbursements will be eliminated after FY 2000, reducing revenue by \$6.2 million.
- The Professional License fee has been phased out and will result in a \$7.6 million revenue reduction in Business Licenses and Permits.

Federal Payment

The FY 2001 federal payment of \$38.2 million is composed of the following:

- Federal monies for January 2001 inaugural expenses of \$6.2 million
- Tuition assistance program monies of \$17.0 million
- Foster care adoption funds of \$5.0 million
- Funds for the remediation of Brownfields in the District of Columbia of \$10.0 million

Reserve Funds

The District of Columbia is required to budget for a \$150 million reserve. The Congress has provided that these funds can be carried over from one year to the next and used for specified expenditures. The expenditure of these funds requires a certification by the Chief Financial Officer at the end of the fiscal year. Unspent reserve funds may be recognized as revenue in a subsequent fiscal year. Potential unspent reserve funds have not been included in the revenue estimates presented here.

TAX REVENUES FOREGONE DUE TO FEDERAL PRESENCE

The District of Columbia foregoes some tax revenue due to its unique role as the nation's capital. Restraints on taxation include tax exempt property, the nonresident individual income tax prohibition imposed by Congress, and the large number of tax exempt and military personnel in the District of Columbia. The inability of the District to include certain income and property within the tax base results in the need to impose higher tax rates on taxable income and property than would otherwise be the case. In other words, the District could lower tax rates if the city could expand the tax base and would continue to maintain current revenue. These factors are explained below:

1. Federally-owned real estate in the District of Columbia is exempt from real and personal property taxes. Certain other entities are specifically exempted by federal law, which would not otherwise be exempt. Real and personal property tax exemptions are estimated to cost the District roughly \$540 million annually at current tax rates.
2. The prohibition against taxing nonresident individual income shifts hundreds of millions of dollars in revenue annually from D.C. to other taxing jurisdictions. If the District imposed a three- percent tax on nonresident wages and salaries, revenue over and above current individual income tax receipts would be in excess of \$600 million (which would be deductible from income taxes paid in other states). A nonresident individual income tax at full District of Columbia rates would yield an estimated \$1.6 billion annually, assuming no change in the location of employment or wage rates.
3. Sales and excise tax exemptions for diplomatic and military personnel reduce District of Columbia revenue roughly \$70 million at current tax rates. Alternatively, if these entities were subject to sales taxes, then rates could be reduced by about 12½ percent and still generate the same amount of revenue.

These three specific exemptions amount to \$1.2 billion or more annually. In addition to these mandated exemptions, the congressionally imposed restriction on the height of District buildings limits taxable office and residential space. These restrictions dampen property tax revenue (and could have spillover

Revenue

effects into income, sales and other taxes) by artificially restricting the property tax base and are also partly responsible for the high tax rates in the District compared to surrounding jurisdictions.

SPECIAL FUNDS AND EARMARKED REVENUE

District of Columbia revenue includes both special funds and earmarking of General Fund revenue.

Special Funds

The District operates several special funds financed by tax revenue, including the Convention Center Fund, the Highway Trust Fund, and the Arena Fund. This revenue is not available to the General Fund and the Appropriated Budget, but is included here for the sake of completeness and to provide estimated revenue for these funds. Furthermore, in the case of the Convention Center, the special funds represent a deduction or earmarking of revenue from what otherwise are general fund tax sources.

Convention Center Fund. Beginning in FY 1999, the Convention Center Fund was changed to include only sales tax revenue from hotels, restaurants, rental vehicles, and certain other sales. The hotel occupancy tax was eliminated and the Convention Center Fund no longer includes a portion of the franchise taxes. The total hotel tax rate was increased from 13.0% to 14.5%. A 4.45% tax on hotel sales is dedicated to the Convention Center Fund while a 10.05% tax remains in the District's General Fund. The 10% restaurant sales tax is still divided so that 1% goes to the Convention Center Fund and 9% remains in the General Fund.

Sales Tax Forecast for the Convention Center Fund, Fiscal Years 2000-2004					
(\$ Thousands)	FY2000	FY2001	FY2002	FY2003	FY2004
Restaurant Sales Tax	16,500	17,400	18,300	19,300	20,300
Hotel Sales Tax	35,300	37,400	39,200	41,100	43,100
Total	51,800	54,800	57,500	60,400	63,400

Motor Fuel Tax. In 1995, the District was required to establish a highway trust fund dedicated to repayment of the local share of Federal-Aid Highway Program (FAH) which had been waived by the Federal Highway Administration in FY 1995 and 1996. This fund also serves as the source from which the District matches all future FAH grants. These monies, both local-source and Federal matching funds, are used to construct and repair sections of the District's roads and other transportation infrastructure. Motor vehicle fuel tax revenue is deposited directly into the trust fund and is not General Fund revenue.

The motor fuel tax is assessed at \$0.20 per gallon and is collected by the Office of Tax and Revenue.

Highway Trust Fund, Fiscal Years 2000-2005						
(\$ Thousands)	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Motor Fuel Tax	32,130	32,159	32,200	32,228	32,256	32,285

Revenue

Arena Fee. The Arena Fee is assessed against D.C. gross receipts of businesses on a sliding scale in order to finance debt service on general obligation construction bonds issued by the District for site preparation related to the MCI Arena. Total revenue is around \$9 million annually, the amount needed to pay off revenue bonds and satisfy bond covenants.

The Tax Parity Act provides a \$2 million threshold for the Arena Fee. That is, no taxpayer with District gross receipts below \$2 million is required to pay the Arena Fee. To satisfy bond requirements Arena Fee rates for taxpayers with District gross receipts of \$2 million or more have been adjusted to ensure that Arena Fee revenue does not fall below current levels.

The new fee schedule is as follows:

Arena Fee Schedule	
D.C. Gross Receipts (\$ Thousands)	Fee
\$2,000,000 - \$3,000,000	\$1,000
\$3,000,000 - \$10,000,000	\$3,300
\$10,000,000 - \$15,000,000	\$6,500
Over \$15,000,000	\$11,000

Arena Fund, Fiscal Years 2000-2005						
(\$ Thousands)	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Arena Fee	9,000	9,000	9,000	9,000	9,000	9,000

Earmarking of Revenue for Special Purposes

The District earmarks, or sets aside, revenue from several sources to provide funding for certain specific purposes. In general, the tax that is earmarked relates to the purpose being funded; for example, the motor vehicle fuel tax is used to match Federal dollars for the highway trust fund. The percentage of total revenue earmarked in FY 1999 is shown in the following table. Beginning in FY 1999, the District no longer earmarks revenue for convention center promotion as a separate item. Promotion of the convention center will come directly from the Convention Center Authority.

Revenue

District of Columbia Earmarked Revenue, FY 1999 (prelim.)		
Purpose	Source(s)	Percent of Total Local-Source Revenue
General Obligation Bonds	Real property tax (variable percentage)	13.44%
WMATA	All of the motor vehicle excise tax, all parking meters fees, all traffic fines, the motor vehicle registration fee, and parts of the restaurant, hotel and parking sales taxes	11.34%
Highway Trust Fund	All of the motor vehicle fuel tax	1.01%
New Convention Center	Parts of the restaurant and hotel sales tax, the hotel occupancy tax, and a surcharge on the corporate franchise and unincorporated business franchise taxes	1.61%
New Arena Construction	Arena fee (all)	0.38%
Total: (a)		27.78%

(a) "Total" consists of all local-source general fund revenue plus the arena fee, convention center transfers, and the motor vehicle fuel tax.

This total of 27.8% of total local-source revenue earmarked is slightly above the level of other states; nationwide, states earmark on average 24% of their revenue for various purposes.

NOTES ON THE DATA AND THE REVENUE ESTIMATES

In the tables and estimates contained in this chapter, preliminary actual revenue is given for FY 1999 and projected revenue is given for FY 2000 – FY 2004. Actual revenue corresponds to amounts that are reported in the Comprehensive Annual Financial Report (CAFR) for FY 1999. The Tax and Economic Policy Administration, Office of Tax and Revenue (OTR), which prepares the estimates, assumes that current law, policy, and administrative quality will continue – that is, that no new changes in tax structure, tax rates, or addition or elimination of revenue sources will be included as part of the estimate unless already legislated and able to be implemented.

A Brief Description of Process Used to Prepare Forecasts

To prepare the revenue estimates OTR takes a multi-dimensional approach. In the case of non-tax revenue (encompassing thousands of fees and over 100 revenue sources), OTR works with District agencies to determine initial forecasts by revenue source. OTR then modifies estimates based on knowledge of internal operations. OTR also consults with the Office of Budget and Planning for any changes in revenue source definitions. For each tax revenue source, cash collections for up to 30 years are analyzed for trends based on standard practices employed by state revenue forecasting agencies.

Using standard statistical regression methods, models are developed and estimated which provide point estimates and confidence intervals principally for FY 2000 and FY 2001, although forecasts for more distant periods are also considered. Limitations in the accuracy of the historical data affect the reliability

of the results of the model. The models meet standard statistical tests for reliability at 95% or greater confidence intervals. However, the confidence intervals remain large, often plus or minus 30% or more of the point estimate.

The services of DRI/McGraw-Hill, Regional Financial Associates, supplemented with data from the Congressional Budget Office, are used to provide national and local baselines. In addition, OTR met with two newly established Advisory Groups in preparing the revenue estimates. The Revenue Estimating Advisory Group, composed of 7 professionals from surrounding state and local jurisdictions, the Congressional Budget Office, a university, and an accounting firm, provided advice on technical estimating issues at its initial meeting in December 1999. The Business Economic Advisory Group, composed of 18 representatives of leading D.C.-area businesses and non-profit institutions, provided advice on current economic trends at its initial meeting in January 2000. OTR also consulted with representatives of Maryland and Virginia regarding trends in income and sales tax collections in those jurisdictions.

Revenue versus Cash.

The District of Columbia budget is based on revenue, an accrual accounting concept in which cash remitted by taxpayers is adjusted to account for such things as accounts receivable (taxes owed but not yet paid, in some cases including penalties and interest), reserves, and taxes paid early. In general, for many of the years preceding FY 1997, revenue for some taxes has been greater than cash, due largely to expectations regarding future collections of accounts receivable. In FY 1997 increased collections of some accounts receivable, the write-off of others, and establishment of adequate reserves against those still outstanding resulted in cash collections \$30 million greater than revenue. In FY 1998, cash collections were also higher than revenue with a difference of less than \$10 million. In FY 1999 and later years the relationship between cash and revenue is anticipated to be close to balance, which should be the normal situation with accurate records and effective collection efforts.

LEGISLATIVE INITIATIVES

The following section presents some of the major legislative and other initiatives impacting the estimates that were known at the time that this document was prepared:

Tax Parity Act of 1999

The revenue estimates take into account the implementation of the cut cuts specified in the Tax Parity Act of 1999. This legislation provides District of Columbia tax reductions ranging in cost from \$59 million in FY 2000 to \$287.6 million in FY 2004. The Tax Parity Act includes rate reductions in the individual income tax, in commercial and rental real property tax rates, and in the franchise tax rates. Personal property depreciation rates are accelerated and a threshold is introduced for payment of the personal property tax. Other provisions include elimination of the Arena Fee for those businesses with less than \$2 million in District gross receipts, elimination of net operating loss carry-back and provision of a District-specific net operating loss provision and elimination of the sales tax on Internet access.

The provisions of the Tax Parity Act are phased-in so that the provisions will not be fully effective until FY 2004. The provisions to be phased-in each year of the plan can be halted if the Chief Financial

Officer (CFO) of the District of Columbia determines that a) the accumulated fund balance for the prior year is below five percent of the general fund operating budget of that year; b) gross domestic product (GDP) growth as estimated by the Congressional Budget Office (CBO) is below 3.5% percent for the current year; or c) inflation-adjusted growth in GDP as estimated by CBO is below 1.7% for the current year. The Council and the Mayor may also consider reducing the top rate to 8% or less if economic conditions warrant such a change.

Earned Income Tax Credit

The District of Columbia will adopt a 10% earned income tax credit effective for calendar year 2000 individual income taxes to reduce the tax burden for low-income District taxpayers. Taxpayers will be allowed to use either the current low-income credit or the earned income credit, but not both. The earned income credit, which is a percentage of the federal earned income tax credit, provides tax relief for low-income taxpayers, especially those with dependent children. The initiative is expected to cost \$3.88 million in FY 2001 and help as many as 40,000 low-income residents.

Red Light Camera Program

In FY 2000, the District began operation of a red light camera traffic program. This initiative is intended to reduce red light running and accidents. Fines are associated with the issuance of tickets for this violation. The estimates include \$9.5 million in FY 2000 and \$7.5 million in FY 2001.

Right Of Way Fee

The District has begun charging utilities a fee for the use of streets and other public property. In the past, these industries enjoyed free use of this public asset. \$4.5 million is expected to be collected in FY 2000 and \$30.0 million in FY 2001, based on a quarterly fee structure. The large increase in FY 2001 reflects a right-of-way fee increase.

Other Modifications

The District eliminated the Professional License Fee, reducing revenue by \$7.5 million. The Cable Franchise Fee was changed from general fund revenue to allocated revenue, eliminating \$2.1 million from the general fund estimate. Finally, it is anticipated that the District will no longer receive a Corrections Department reimbursement, reducing revenue by \$6.2 million in FY 2001.

Revenue

REVENUE IMPACT OF INCREMENTAL CHANGES IN TAX RATES

This section looks at the revenue impact of incremental changes in tax rates – for instance, lowering a tax rate by one cent or by one percentage point. These numbers are not presented as definitive fiscal impact statements, but instead represent rules of thumb to evaluate general legislative proposals.

Real Property:

	Annual Impact	
One cent change in tax rate by class	Class 1 (\$0.96)	\$1.28 M
	Class 2 (\$1.34)	\$0.66 M
	Class 3 (\$1.85)	\$0.15 M
	Class 4 (\$2.05)	\$1.73 M
	Class 5 (\$2.05)	\$0.01 M
	TOTAL	\$3.83 M
Eliminate homestead exemption		\$26.1 M
Eliminate senior credit		\$15.0 M
Personal Property Tax:		
One cent change in tax rate (now \$3.40 per \$100 value)		\$0.20 M

Note: Assumes no change in stock of personal property

Sales and Use Tax:

One percent change in each tax rate	General rate (5.75%)	\$50.20 M
	Liquor rate (8.0%)	\$ 1.64 M
	Restaurant rate (10%)	\$15.63 M
	Parking rate (12%)	\$ 1.91 M
	Hotel, motel rate (14.5%)	\$ 7.52 M
	TOTAL	\$77.29 M

Note: Does not include estimates of elasticity of various tax rates.

Figures shown are before Convention Center distribution.

Figures include use tax

Eliminate sales tax on business purchases	\$100 M
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Alcoholic Beverage Tax:

One cent change in tax rate	Beer (\$0.09 rate per gallon)*	\$133 K
	Spirits (\$1.50 per gallon)	\$ 17 K
	Light Wine (\$.30 per gallon)	\$ 25 K
	Heavy Wine (\$.40 per gallon)	\$ 2 K
	Champagne, Sparkling (\$.45)	\$ 31 K
	TOTAL	\$208 K

Revenue

* Equivalent to tax rate of \$2.79 per 31-gallon barrel.

Cigarette Tax:

One cent change in tax rate	Cigarette tax rate now \$.65	\$0.18 M
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Note: Assumes elasticity of 0.5, figure shown assumes rate increase

Motor Vehicle Excise Tax:

One percent change in each tax rate (current rates now 6%, 7%)	\$2.80 M
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Motor Vehicle Fuel Tax:

One cent change in tax rate (current rate 20 cents per gallon)	\$1.60 M
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Individual Income Tax:

One percent change in each rate (current rates 5%, 7.5% and 9.5%)

Taxable Income of 0-\$10,000 at 4%	\$21.1 M
Taxable Income 10-\$20,000 at 6.5%	\$14.4 M
Taxable Income over \$20,000 at 8.5%	<u>\$50.2 M</u>
TOTAL ALL THREE RATES	\$85.7 M

Increase personal exemption by from \$1,370 to \$1,500	\$ 5.3 M
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Increase standard deduction from \$1,000/\$2,000 to \$2,000/\$4,000	\$12.0 M
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Reduce top rate to 9.0% (now 9.5%)	\$25.6 M
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Franchise Tax:

One percent change in corporate tax rate (current rate 9.975%)	\$16.5 M
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One percent change in unincorporated tax rate (current rate 9.975%)	\$5.4 M
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Public Utility Tax:

One percent change in tax rate (current rate 10.0%)	\$12.8 M
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Toll Telecommunications Tax:

One percent change in tax rate (current rate 10.0%)	\$5.19 M
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Deed Taxes:

One-tenth percent change in recordation tax rate (current rate 1.1%)	\$6.4M
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One-tenth percent change in transfer tax rate (current rate 1.1%)	\$4.3M
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Economic Interest Tax:

One-tenth percent change in tax rate (current rate 1.1%)	\$0.18M
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Revenue

SUPPORTING DATA/APPENDICES

Summary of District of Columbia Tax Rates as of 10/1/99	
Real Property (per \$100 of Assessed Value)	
Class I - Owner-Occupied Residential ^{a/}	\$0.96
Class II – Residential Rental	1.34
Class III – Hotels, Motels, Inns	1.85
Class IV – Commercial	2.05
Class V – Unimproved, Vacant	2.05
<i>^{a/} Subject to homestead exemption of \$30,000 and senior citizen exemption</i>	
Personal Property (per \$100 of Assessed Value)	\$3.40
General Sales Tax (per \$1.00 of sales)	
General Rate	5.75%
Off-Sale Alcohol	8.0 %
Restaurant Meals	10.0 %
Parking	12.0 %
Hotels/Motels (rate effective 10/1/98)	14.5 %
Alcoholic Beverage Tax	
Beer	\$2.79 per barrel
Distilled Spirits	1.50 per gallon
Wine < 14%	0.30 per gallon
Wine > 14%	0.40 per gallon
Sparkling Wines	0.45 per gallon
Cigarette Tax (per pack)	\$0.65
Motor Fuel Tax (per gallon)	\$0.20
Motor Vehicle Excise Tax	
Up to 3,499 lbs.	6% of value
3,500 lbs. or more	7% of value
Hotel Occupancy Tax (effective 10/1/98)	Eliminated
Individual Income Tax (marginal rate, calendar 2000)	
\$0 - \$ 9,999	5%
\$ 10,000 - \$ 19,999	7.5%
\$ 20,000 and over	9.5%
Corporation and Unincorporated Business Franchise	9.975%
Public Utility Gross Receipts	10.0%
Toll Telecommunication Gross Receipts	10.0%
Insurance Gross Premiums (effective 1/1/99)	1.7%
Estate Tax	Federal Credit
Deed Recordation and Transfer Taxes	1.1%
Economic Interests Tax	2.2%

Source: District of Columbia Tax Facts and Office of Tax and Revenue

Revenue

Summary and Description of Taxes			
PART A - GENERAL FUND TAXES			
Tax	Description	Rates	FY 1999 Revenue
REAL PROPERTY TAX	All real property, unless expressly exempted, is subject to the real property tax and, beginning in TY 98, is assessed triannually at 100% of market value. The District of Columbia uses five classifications of property: Class I--improved residential real property that is owner-occupied; Class II--improved residential real property that is rental; Class III--hotels and motels; Class IV--real property which is not Class I, II, or III property; and Class V--unimproved property (vacant land). Vacant property which abuts and has common ownership with a classified property is classified the same as that property which it abuts. <i>D.C. Code Citation: Title 47, Chapter 7 - 14.</i>	The District's Real Property Tax Year is October 1 through September 30. Property Class Tax Per \$100 of Value Class I \$0.96/ ¹ Class II \$1.34 Class III \$1.85 Class IV \$2.05 Class V \$2.05 ¹ The first \$30,000 of Assessed Value is exempt from the tax.	\$597,566,000
PERSONAL PROPERTY TAX	All tangible property, except inventories, used or available for use in a trade or business. <i>D.C. Code Citation: Title 47, Chapter 15 - 17.</i>	\$3.40 per \$100 of assessed value <i>Note: As of July 31, 2000, both an accelerated depreciation schedule for computer equipment; and a \$50,000 taxable value threshold on personal property are adopted.</i>	\$ 73,928,000
PUBLIC SPACE RENTAL	Commercial use of publicly owned property between the property line and the street. <i>D.C. Code Citation: Title 7, Chapter 10.</i>	Various rates for the following: Vault, Sidewalk (Enclosed and Unenclosed). Sidewalk Surface, and Fuel Oil Tank	\$ 8,056,000
SALES AND USE TAX	All tangible personal property and certain selected services, sold or rented to businesses or individuals at retail in the District. Groceries, prescription and non-prescription drugs, and residential utility services are among those items exempt from the sales tax. The use tax is imposed at the same rates sales tax rate on purchases made outside the District and then brought into the District to be used, stored or consumed, providing that the purchaser has not paid the sales tax on the purchases to another jurisdiction. <i>D.C. Code Citation: Title 47, Chapters 20 and 22.</i>	A five-tier rate structure is presently in effect: 5.75% General rate for tangible personal property and selected services, 8% Liquor sold for off the premises consumption 10% Restaurant meals, liquor for consumption on the premises, rental vehicles 12% Parking motor vehicles in commercial lots 14.5% Transient accommodations <i>Note: The following portions of the sales tax go to the Convention Center Fund: 1% of sales tax from restaurant meal etc., and 4.45% of transient accommodations. Sales tax on internet access is eliminated.</i>	\$541,573,000 a
ALCOHOLIC BEVERAGE TAX	Alcoholic beverages manufactured by a holder of a manufacturer's license and beverages brought into D.C. by the holder of a wholesaler's license. <i>D.C. Code Citation: Title 25, Chapter 1.</i>	Beer --\$2.79 per 31 gallon barrel Light wine < 15% alcohol - 30¢ per gal Heavy wine > 14% alcohol - 40¢ per gal Champagne/sparkling wine- 45¢ per gal Spirits -- \$1.50 per gallon	\$ 4,821,000
CIGARETTE TAX	The sale or possession of cigarettes in the District. Cigarettes sold to the military and to Federal Government are exempt. <i>D.C. Code Citation: Title 47, Chapter 24.</i>	65¢ per package of twenty cigarettes	\$ 17,107,000
MOTOR VEHICLE EXCISE TAX	Issuance of every original and subsequent certificate of title on motor vehicles and trailers. <i>D.C. Code Citation: Title 40, Chapter 7.</i>	Based on manufacturer's shipping weight 6% of fair market value-3,499 lbs or less 7% of fair market value-3,500 lbs or more	\$ 31,329,000
INDIVIDUAL INCOME TAX	The taxable income of an individual who is domiciled in the District at any time during the tax year, or who maintains an abode in the District for 183 or more days during the year. <i>D.C. Code Citation: Title 47, Chapter 18.</i>	Taxable Income Tax Rate First \$10,000 5.0% Over \$10,000, but Not over \$20,000 \$600 + 7.5% of excess over \$10,000 Over \$20,000 \$1,400 + 9.5% of Excess over \$20,000	\$952,156,000

Revenue

CORPORATE FRANCHISE TAX	Net income of corporations having nexus in the District. All corporations engaging in a trade, business or profession in the District of Columbia must register. <i>D.C. Code Citation: Title 47, chapter 18.</i>	The franchise tax rate is 9.975 percent of taxable income.	\$163,699,000
U. B. FRANCHISE TAX	Net income of unincorporated businesses with gross receipts over \$12,000. A 30% salary allowance for owners and a \$5,000 exemption are deductible from net income to arrive at taxable income. A business is exempt if more than 80% of gross income is derived from personal services rendered by the members of the entity and capital is not a material income-producing factor. A trade, business or professional organization which by law, customs or ethics cannot be incorporated is exempt. <i>D.C. Code Citation: Title 47, chapter 18.</i>	The franchise tax rate is 9.975 percent of taxable income.	\$ 53,896,000
PUBLIC UTILITY TAX	Gross receipts of gas, electric and local telephone companies. <i>D.C. Code Citation: Title 47, Chapter 25.</i>	10% of gross charges	\$128,472,000
TOLL TELECOMMUNICATIONS TAX	Gross receipts of companies providing toll telecommunication service in the District. <i>D.C. Code Citation: Title 47, Chapter 38.</i>	10% of gross charges	\$ 51,874,000
INSURANCE PREMIUMS TAX	Gross insurance premiums received on risks in the District, less premiums received for reinsurance assumed, returned premiums and dividends paid to policy-holders. The tax is in lieu of all other taxes except real estate taxes and fees provided for by the District's insurance law. <i>D.C. Code Citation: Title 35; Title 47, Chapter 26.</i>	1.7% on gross premium receipts	\$ 26,944,000
INHERITANCE AND ESTATE TAX	The estate of every decedent dying while a resident of the District, and on the estate of every nonresident decedent owning property having a taxable status in the district at the time of his or her death. <i>D.C. Code Citation: Title 47, Chapter 19.</i>	Tax equals the amount of credit for state death taxes allowed on the Federal Estate Tax Return.	\$ 26,247,000
DEED RECORDATION TAX	The recording of all deeds to real estate in the District. The basis of the tax is the value of consideration given for the property. Where there is no consideration or where the consideration is nominal, the tax is imposed on the basis of the fair market value of the property. <i>D.C. Code Citation: Title 45, Chapter 9.</i>	1.1% of consideration or fair market value	\$ 70,398,000
DEED TRANSFER TAX	Each transfer of real property at the time the deed is submitted for recordation. The tax is based upon the consideration paid for the transfer. Where there is no consideration or where the amount is nominal, the basis of the transfer tax is the fair market value of the property conveyed. <i>D.C. Code Citation: Title 45, Chapter 9.</i>	1.1% of consideration or fair market value	\$47,001,000
ECONOMIC INTEREST TAX	The economic interest transfer tax is triggered by two (2) elements. These elements are 1) 80% of the assets of a corporation consist of real property located in the District of Columbia; and 2) more than 50% of the controlling interest of the corporation is being transferred. The consideration is not always equal to the assessed value of the property. The consideration is what is paid for the interest being transferred. If there is no tangible consideration, then the tax basis will be the assessed value of the property owned by the corporation.	2.2% of consideration or fair market value	\$3,687,000
TOTAL GENERAL FUND TAXES:			A b \$2,800,398,000

Revenue

PART B - OTHER SELECTED TAXES				
Tax	Description	Rates		FY 1999 Revenue
MOTOR VEHICLE FUEL TAX	Every importer of motor vehicle fuels, including gasoline, diesel fuel, benzol, benzene, naphtha, kerosene, heating oils, all liquefied petroleum gases and all combustible gases and liquids suitable for the generation of power for the propulsion of motor vehicles. <i>D.C. Code Citation: Title 47, Chapter 23.</i>	20¢ per gallon		\$31,073,000
THE ARENA FEE	The Arena Fee is required to be paid by any person or entity who at any given point during their calendar year or fiscal year ending on June 15, is subject to any of the following: 1) D.C. corporation franchise tax; 2) D.C. unincorporated business franchise tax; or 3) The D.C. Unemployment Compensation Act, except employers who employ persons to provide personal or domestic services in a private home unless the employment is related to the employer's trade, occupation profession, enterprise, or vocation. An entity granted exemption from D.C. corporation franchise tax or unincorporated business franchise tax, pursuant to Title II of the D.C. Income and Franchise Tax Act of 1947, as amended, is not subject to the fee, unless it has unrelated business income. An exempt entity with unrelated business income shall pay an Arena Fee based upon annual D.C. gross receipts associated with the unrelated business income for the preceding fiscal year. <i>D.C. Code Citation: Omnibus Budget Support Act of 1994, Title III, Section 303, April 22, 1994.</i>	District Gross Receipts For Preceding Fiscal Year Less than \$2,000,000 \$2,000,001 to \$3,000,000 \$3,000,001 to \$10,000,000 \$10,000,001 to \$15,000,000 Over \$15,000,000	Fee \$ 0 \$ 1,000 \$ 3,300 \$ 6,500 \$ 11,000	\$ 11,617,540
		<i>Note: New rate schedule, effective for payments due June 15, 2000.</i>		

Source of General Fund Revenue Amounts: D.C. Comprehension Annual Financial Report, FY 19xx, p. xx.

(a) Amount excludes transfers to the Convention Center Fund.

(b) Excludes revenue from the hotel occupancy tax that was discontinued, effective October 1, 1998.

Prepared by the Tax and Economic Policy Administration, D.C. Office of Tax and Revenue. 03/07/00.

Revenue

COMPARISON: FY 1999 Actual, FY 2000 Revised & FY 2001 Original Revenue Estimates							
(\$000)							
Revenue Source	FY 1999 Actual	FY 2000 Revised Estimate (May 2000)	FY 2001 Original Estimate (May 2000)	\$ Difference FY 1999 & FY 2000	\$ Difference FY 2000 & FY 2001	Pct. Difference FY 1999 & FY 2000	Pct. Difference FY 2000 & FY 2001
Real Property	597,566	572,900	573,500	(24,666)	600	-4.1%	0.1%
Public Space Rental	73,928	70,150	61,560	(3,778)	(8,590)	-5.1%	-12.2%
Personal Property	8,056	9,200	9,300	1,144	100	14.2%	1.1%
Total, Property Taxes	679,550	652,250	644,360	(27,300)	(7,890)	-4.0%	-1.2%
Sales and Use	541,573	575,000	600,000	33,427	25,000	6.2%	4.3%
Alcoholic Beverage	4,821	4,800	4,800	(21)	0	-0.4%	0.0%
Cigarette	17,107	16,765	16,430	(342)	(335)	-2.0%	-2.0%
Motor Vehicle Excise	31,329	30,000	30,000	(1,329)	0	-4.2%	0.0%
Hotel Occupancy	(26)	0	0	26	0		
Total, Sales Taxes	594,804	626,565	651,230	31,761	24,665	5.3%	3.9%
Individual Income	952,156	1,018,800	1,033,820	66,644	15,020	7.0%	1.5%
Corporate Franchise	163,699	205,000	199,519	41,301	(5,481)	25.2%	-2.7%
U.B. Franchise	53,896	56,055	57,840	2,159	1,785	4.0%	3.2%
Total, Income Taxes	1,169,751	1,279,855	1,291,179	110,104	11,324	9.4%	0.9%
Public Utility Gross Receipts	128,472	130,000	132,860	1,528	2,860	1.2%	2.2%
Toll Telecommunications	51,874	53,222	54,393	1,348	1,171	2.6%	2.2%
Insurance Premiums	26,944	31,500	32,500	4,556	1,000	16.9%	3.2%
Public Safety Fee	0	0	0	0	0		
Health Care Provider Fee	0	0	0	0	0		
Estate Tax	26,247	22,268	23,100	(3,979)	831	-15.2%	3.7%
Deed Recordation	70,398	53,784	52,953	(16,614)	(831)	-23.6%	-1.6%
Deed Transfer	47,001	35,909	35,354	(11,092)	(555)	-23.6%	-1.6%
Economic Interests	3,687	500	500	(3,187)	0	-86.4%	0.0%
Total, Other Taxes	354,623	327,183	331,659	(27,440)	4,476	-7.7%	1.4%
TOTAL TAX REVENUES	2,798,728	2,885,853	2,918,428	87,125	32,575	3.1%	1.1%
Licenses and Permits	46,534	40,994	37,095	(5,540)	(3,899)	-11.9%	-9.5%
Fines and Forfeitures	47,688	53,276	67,716	5,588	14,440	11.7%	27.1%
Charges for Services	31,055	37,802	61,528	6,747	23,726	21.7%	62.8%
Miscellaneous Revenues	86,740	87,134	71,033	394	(16,101)	0.4%	-18.5%
Tobacco Settlement: 30%	0	16,050	0	16,050	(16,050)		-100.0%
Total, Nontax Revenues	212,017	235,256	237,372	23,239	2,116	11.0%	0.9%
TOTAL TAX & NON-TAX REVENUE	3,010,745	3,121,109	3,155,800	110,364	34,691	3.6%	1.1%
Federal Payment	0	23,750	38,211	23,750	14,461		60.9%
Lottery	64,225	69,000	69,000	4,775	0	7.4%	0.0%
TOTAL LOCAL SOURCE REVENUES	3,074,970	3,190,859	3,263,011	138,889	49,152	4.5%	1.5%
Tobacco Settlement: 70% FY00, 100% thereafter	0	37,899	42,036	37,899	4,137		10.9%
GENERAL FUND + Tobacco Settlement	3,074,970	3,251,758	3,305,047	176,788	53,289	5.7%	1.6%

Note: Estimates and actuals are net of Convention Center, Arena and Highway Trust Fund revenues.

Revenue

Local Fund Revenue, FY1989-FY1999 (\$000)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Real Property	638,218	664,591	801,876	820,892	928,322	730,641	654,284	624,382	617,694	616,935	597,566
Personal Prop.	63,404	62,584	69,899	65,609	67,085	62,437	61,305	65,201	60,392	68,475	73,928
Public Space	9,144	9,963	10,103	16,818	16,256	17,931	14,754	12,052	9,513	10,030	8,056
Total Property	710,766	737,138	881,878	903,319	1,011,663	811,009	730,343	701,635	687,599	695,440	679,550
General Sales and Use	428,763	466,557	451,582	442,496	410,068	458,555	485,651	467,527	482,354	525,087	541,573
Alcohol	6,215	6,136	6,541	5,835	5,289	4,878	4,930	5,100	5,460	4,702	4,821
Cigarette	9,383	9,178	10,426	17,065	20,845	21,721	20,117	18,676	18,946	17,592	17,107
Motor Vehicle Fuel	6,489	30,207	30,114	28,586	34,780	36,107	34,617	n/a	n/a	n/a	n/a
Motor Vehicle Excise	29,550	26,043	23,555	22,108	24,268	27,456	30,440	31,668	30,271	29,838	31,329
Hotel Occupancy	26,769	8,702	8,786	8,660	9,485	8,757	8,352	7,420	3,806	5,369	(26)
Total Selective Sales	78,406	80,266	79,422	82,254	94,667	98,919	98,456	39,088	58,483	57,501	53,231
Ind. Income	603,469	637,910	615,746	620,208	589,521	650,660	643,676	689,408	753,475	861,505	952,156
Corp. Franchise	125,144	112,273	102,767	62,751	105,038	113,981	121,407	123,114	144,563	170,029	163,699
U.B. Franchise	31,270	27,468	30,512	25,126	35,960	36,227	39,272	31,031	38,942	45,767	53,896
Total Income	759,883	777,651	749,025	708,085	730,519	800,868	804,355	843,553	936,980	1,077,301	1,169,751
Insurance	30,202	33,816	33,338	31,785	32,187	31,208	34,703	33,121	42,625	37,096	26,944
Public Utility	95,497	74,601	86,239	115,297	127,245	134,228	131,012	144,842	141,901	141,069	128,472
Toll Tele. Tax	10,981	19,156	22,985	33,110	37,807	39,958	44,554	45,464	52,994	56,732	51,874
Health Care Prov. Fee					32,354	27,708	175	11,530	(8,278)	1,740	0
Public Safety Fee						10,097	468	0	0	0	0
Total Gross Receipts	136,680	127,573	142,562	180,192	229,593	243,199	210,912	234,957	229,242	236,637	207,290
Estate	24,678	23,497	26,970	29,922	38,680	11,714	16,807	32,175	27,314	32,256	26,247
Deed Recordation	37,637	35,477	19,953	17,831	20,245	23,547	22,691	33,099	30,821	53,863	70,398
Deed Transfer	27,785	30,968	18,815	19,944	21,506	21,980	21,826	26,701	27,162	42,597	47,001
Economic Interests			1,525	257	911	262	0	10	10,081	11,166	3,687
Total Other Taxes	90,100	89,942	67,263	67,954	81,342	57,503	61,324	91,985	95,378	139,882	147,333
TOTAL TAXES	2,204,598	2,279,127	2,371,732	2,384,300	2,557,852	2,470,053	2,391,041	2,402,521	2,490,036	2,731,848	2,798,728

Revenue

Local Fund Revenue, FY1989 – FY1999 (\$000) Con't

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Business Licenses & Permits	16,743	15,711	15,799	21,123	25,868	29,202	29,943	29,663	28,268	31,050	28,988
Non-Business Licenses & Permits	16,326	16,574	17,198	20,733	18,696	19,896	17,640	19,737	17,221	17,073	17,546
Total Licenses & Permits	33,069	32,285	32,997	41,856	44,564	49,098	47,583	49,400	45,489	48,123	46,534
Fines and Forfeitures	45,511	48,542	53,026	51,860	51,845	48,107	42,447	40,792	51,664	53,177	47,688
Parking Meters	10,418	10,947	12,558	13,468	13,229	12,954	12,889	9,681	5,766	7,082	12,784
Other Charges	36,548	38,789	39,113	43,952	39,674	39,150	39,798	36,353	38,044	27,670	18,271
Total Charges for Services	46,966	49,736	51,671	57,420	52,903	52,104	52,687	46,134	43,810	34,752	31,055
Interest Income	21,423	24,989	26,645	23,255	7,171	7,995	17,994	13,917	18,599	32,478	27,542
Unclaimed Property	4,670	1,960	6,573	15,303	12,614	13,904	13,856	16,230	17,688	25,908	31,511
Other Revenues	10,366	14,041	15,216	13,693	12,975	25,353	21,984	11,870	34,642	40,750	27,687
Total Misc. Revenues	36,459	40,990	48,434	52,251	32,760	47,252	53,834	42,017	70,919	99,136	86,740
TOTAL NON-TAX REVENUES	162,005	171,553	186,128	203,387	182,073	196,561	196,551	178,344	211,882	235,188	212,017
TOTAL TAX & NON-TAX REVENUES	2,366,603	2,450,680	2,557,860	2,587,687	2,739,925	2,666,614	2,587,592	2,580,865	2,701,918	2,967,036	3,010,745
Lottery Transfer	53,000	48,875	45,700	48,500	66,875	69,050	85,100	75,250	69,200	81,300	64,225
Federal Payment	453,800	506,966	625,231	643,772	635,930	647,930	660,000	660,000	665,702	198,000	0
TOTAL GENERAL FUND REVENUE	2,873,403	3,006,521	3,228,791	3,279,959	3,442,729	3,383,594	3,332,692	3,316,114	3,438,467*	3,246,336	3,074,970

Source: Comprehensive Annual Financial Report (various years) ; amounts for FY 1998 are reported net of transfers to the Convention Center Fund. Note: FY 1997 Total Revenue includes \$1.647 million from the sale of surplus property.

Revenue

R Stars (Revenue) Code	Revenue Source	Actual FY 1999	Estimate FY 2000	Estimate FY 2001
Business Licenses and Permits				
3001	Insurance License	103.3	1,000.0	1,700.0
3003	Professional License	7,706.6	0.0	0.0
3006	Hacker's License	299.9	325.0	325.0
3007	Security Broker Fee	0	100.0	100.0
3009	Self-Unloading Permit	592.6	736.0	754.0
3010	Other Business License	3,040.5	3,162.0	3,241.0
3011	Occupational & Professional License	1,888.0	4,930.0	2,000.0
3012	Building Structures, Equipment	8,294.8	7,000.0	5,996
3013	Certificate of Occupancy	258.5	0.0	0.0
3014	Refrigeration & plumbing Permit	1,046.0	720.0	738.0
3015	Electrical Permit	1,300.4	814.0	834.0
3016	Public Space Excavation Permit	601.0	240.0	246.0
3017	Alcoholic Beverage License	1,757.1	2,650.0	1,700.0
3018	Healing Arts	316.8	261.0	293.0
4879	Investment Advisors Act	0	229.0	225.0
3020	Boxing & Wrestling	103.7	102.0	105.0
3021	Vendor Fee	1,297.8	1,300.0	1,300.0
TOTAL	BUSINESS LICENSES AND PERMITS	28,606.9	23,569.0	19,527.0
Non Business Licenses and Permits				
3101	Driver's Permit	1,841.3	1,739.1	1,773.9
3110	Bike Registration	5.8	5.0	5.0
3120	Boat Registration	122.0	127.7	131.0
3130	Other Non-bus. Licenses	47.8	50.0	50.0
3141	Reciprocity Permit	95.3	203.7	207.8
3151	Motor Vehicle Registration	15,842.1	15,300.0	15,400.0
TOTAL	NON BUSINESS LICENSES AND PERMITS	17,954.3	17,425.5	17,567.7
Fines and Forfeitures				
5000	Hacker's Fines	2.8	10.0	1,410.0
5010	Traffic Fines	46,064.5	42,086.0	57,136.3
5010	Red Light Cameras*	0	9,500.0	7,500.0
5020	Sale of Abandoned Property	0	200.0	200.0
5030	Booting Fees	632.7	630.0	620.0
5040	Towing Fees	583.6	600.0	600.0
5050	Impoundment Fees	265.8	250.0	250.0
5060	Other Fines & Forfeitures	138.2	0	0
TOTAL	FINES AND FORFEITURES	47,687.6	53,276.0	67,716.3

Revenue

R Stars (Revenue) Code	Revenue Source	Actual FY 1999	Estimate FY 2000	Estimate FY 2001
Miscellaneous				
6101	Bus Shelter Advertisement	1,333.8	1,300.0	1,300.0
6103	Reimbursements	3,333.5	6,250.0	0.0
5600	Interest Income	27,541.8	41,300.0	28,700.0
6105	Concession Income	46.9	49.2	51.7
6106	Other Revenues	3,582.0	3,860.3	3,968.1
6100	Surplus Property	268.5		
5700	Disposition/Unclaimed Property	31,276.4	25,000.0	25,000.0
6107	Civil Infractions	521.7	350.0	359.0
3022	KEG Registration Fund	0.0	3.0	3.0
	Medicaid Fraud Collections	0	0	2,500.0
	WASA PILOT	6,750.0	9,022.0	9,151.0
TOTAL	MISCELLANEOUS 1/	74,654.6	87,134.5	71,032.8
Charges for Services				
3202	Boiler Inspection Permit	58.7	47.0	48.0
3203	Smoke Regulation Permit	0.0	6.0	6.0
3204	Elevator Inspection	378.0	280.0	287.0
3205	Rental Accommodations	1,916.8	1,327.0	0
3206	Fingerprints, Photos	20.9	17.9	18.4
3207	Other Service Charges	721.9	750.0	750.0
3208	Reproduction of Reports	959.5	900.0	900.0
3209	Emergency Ambulance	4,379.8	5,300.0	5,000.0
3210	Transcript of Records	235.0	231.9	238.4
3211	Firearm User Fee	7.5	10.1	10.4
3212	Police Hauling & Storage	19.2	33.8	34.7
3400	Parking Meters	9,788.1	13,039.3	12,660.1
3213	Light Lamps/Right of Way	0.0	4,500.0	30,000.0
3215	Motor Vehicle Titles	1,471.7	1,529.6	1,560.2
3216	Solid Waste Disposal	471.6	200.0	200.0
3219	Wharves and Markets	33.5	23.7	24.9
3220	Surveyor's Fees	165.7	161.0	161.0
3221	Recordation Fee	3,658.3	3,138.0	3,100.0
3222	Corporate Recordation	5,590.2	4,700.0	4,818.0
3223	Parking Permits and Fees	1,038.9	900.0	950.0
3224	Street/Gutter Assessment	4.2	3.0	3.0
3227	Condo/Coop Certificate	4.7	5.0	5.0
3228	Condo Registration	6.4	23.0	24.0
3234	Auditor's Assessment	7.5	130.0	130.0
3232	Cable TV Franchise Fee	2,565.6	0.0	0.0

Revenue

R Stars (Revenue) Code	Revenue Source	Actual FY 1999	Estimate FY 2000	Estimate FY 2001
6108	COCOT Registration Fee	20.2	21.0	25.0
6109	VHS Tape Budget Fee	3.0	0.0	0.0
2921	DC Lottery On-Line Games	736.0	436.6	481.0
3201	Home Occupancy License	38.8	47.0	48.0
3200	TELCO Act of 1996	30.0	41.0	45.0
TOTAL	CHARGES FOR SERVICES	31,036.2	37,801.9	61,528.0

\$ In thousands

1/Miscellaneous revenue detail does not add to totals in CAFR.