

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Jeffrey S. DeWitt
Chief Financial Officer

January 22, 2019

The Honorable Muriel Bowser
Mayor of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 306
Washington, DC 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

RE: Estimated Impact of Federal Shutdown

Dear Mayor Bowser and Chairman Mendelson:

The Office of Revenue Analysis conducted an analysis of economic activity and tax revenues related to the partial federal government shutdown, including forecasting revenue impacts if the shutdown continues. The federal shutdown, which began on December 22, 2018, effectively stops paychecks to an estimated 800,000 federal workers nationwide.

District Impacts

Many of the affected federal agencies are headquartered in the District. An estimated 102,000 federal workers employed by these agencies are currently furloughed and approximately 37,750 of those are District residents. Also impacted are non-profit organizations and contractors that provide services to the affected federal agencies. An estimated 42,635 workers fall within this category, with an estimated 15,750 of them being District residents. The combined result is an estimated 144,635 employees not being paid or receiving reduced pay in the District. This is approximately 18% of the 796,000 individuals employed in the District.

The resulting reduced business activity impacts District restaurants, bars, hotels, retail, parking and related activities as workers who would normally commute to the District from Maryland and Virginia are no longer doing so due to the shutdown. In addition, the shutdown is impacting tourism as the closing of the Smithsonian museums, the National Zoo, and other national monuments, as of January 2, 2019, has resulted in fewer visitors.

District taxes are directly impacted by reduced wage or withholding taxes paid (by federal agencies and related businesses). Our analysis assumes that the federal wages are merely deferred, impacting District cash flows in the short term, but will be paid once the shutdown ends. On January 16, the President signed into law a bill requiring that, at the conclusion of the shutdown, federal workers receive back pay for the shutdown period. However, contractor wages and wages lost in other industries impacted by the shutdown such as restaurant, hotel, and retail are not recoverable and are losses to income tax revenue. The deferred or lost wage income coupled with reduced tourism and visitors reduce the amount of spending occurring in the local economy, resulting in decreased sales taxes and related fees as well. Assuming federal workers receive back pay for the shutdown period, the most significant impact on District tax revenues is lost sales taxes and related revenues. These losses relate to reduced restaurant sales, increased hotel vacancies from reduced room nights, lower retail sales, and less revenue from parking as a result of fewer workers and visitors coming to the District each day.

The impact of the shutdown was significantly lessened in weeks immediately following December 22, 2018, since many federal employees are normally on vacation and tourist activity in the District is minimal during the winter holiday season. However, there is evidence that the impacts are accelerating and will increase each week as federal employees further reduce their spending and the tourism industry moves closer to the peak spring season. According to the Restaurant Association of Metropolitan Washington, area restaurants are seeing an average 20% decrease in sales, with some restaurants seeing 60% decreases. District hotels averaged 5% lower occupancy rates comparing December over December levels (2018 compared to 2017) and could realistically experience 30% declines if the shutdown continues into March.

Estimated Impact on Tax Revenues

The Office of Revenue Analysis, using the information discussed previously and additional detailed economic and tax information, has estimated the impact on District taxes if the shutdown continues for 8 weeks or until February 15, 2019 and the additional impact of the shutdown if it continues 12 weeks until March 15, 2019. Revenue loss estimates are developed

weekly, and indicate the longer the shutdown continues, the larger and more accelerated the weekly losses.

Losses during the last week of December are estimated at \$5.85 million and are presently estimated to have increased to \$11.67 million for the week ending January 25, 2019. As the impacts of the shutdown begin to spread to the larger economy, losses are projected to increase to \$15.23 million per week by the second week of March. Cumulative losses to District revenue are estimated at \$85.21 million if the shutdown continues for 8 weeks, to February 15, 2019, and accelerate and reach \$144.88 million if the shutdown continues for 12 weeks to March 15, 2019. These losses assume back pay for federal employees that will translate into a delay but not a loss in employer withholding taxes. The deferred payment of wages to federal workers is resulting in temporary losses in withholding taxes of \$56.97 million for the shutdown through February 15, and \$85.45 million for a shutdown through March 15, negatively affecting District cashflows until payment occurs. The unpaid wages of federal employees working in the District total \$856 million for the 8-week period and \$1.28 billion for the 12-week period. The table below provides a weekly summary of the District tax losses for the two scenarios. These losses do not include the additional cost associated with the increased use of safety net services that may occur as workers struggle to pay for basic needs such as housing, utilities, and food.

FISCAL EFFECTS OF SHUTDOWN - 8 WEEKS (Ends 2/15/2019)

(\$millions)			Wages		Withholding		Sales tax and	Total
	WEEK		Lost	Deferred	Lost	Deferred	fee revenue	
	12/28/2018	1	\$ (21.85)	\$ (107.00)	\$ (0.99)	\$ (7.12)	\$ (4.86)	\$ (5.85)
	1/4/2019	2	(21.85)	(107.00)	(0.99)	(7.12)	(7.36)	(8.35)
	1/11/2019	3	(31.62)	(107.00)	(2.10)	(7.12)	(8.54)	(10.64)
	1/18/2019	4	(31.62)	(107.00)	(2.10)	(7.12)	(8.74)	(10.85)
	1/25/2019	5	(35.99)	(107.00)	(2.39)	(7.12)	(9.28)	(11.67)
	2/1/2019	6	(35.99)	(107.00)	(2.39)	(7.12)	(9.48)	(11.87)
	2/8/2019	7	(39.75)	(107.00)	(2.65)	(7.12)	(10.24)	(12.88)
	2/15/2019	8	(39.75)	(107.00)	(2.65)	(7.12)	(10.44)	(13.08)
8 week shutdown - Deferred			\$ (856.00)		\$ (56.97)			\$ (56.97)
8 week shutdown - Loss			\$ (258.41) -		\$ (16.27) -		\$ (68.94)	\$ (85.21)

FISCAL EFFECTS OF SHUTDOWN - 12 WEEKS (Ends 3/15/2019)

(\$millions) WEEK	Wages		Withholding		Sales tax and fee revenue	Total Fiscal Impact
	Lost	Deferred	Lost	Deferred		
12/28/2018 1	\$ (21.85)	\$ (107.00)	\$ (0.99)	\$ (7.12)	\$ (4.86)	(5.85)
1/4/2019 2	(21.85)	(107.00)	(0.99)	(7.12)	(7.36)	(8.35)
1/11/2019 3	(31.62)	(107.00)	(2.10)	(7.12)	(8.54)	(10.64)
1/18/2019 4	(31.62)	(107.00)	(2.10)	(7.12)	(8.74)	(10.85)
1/25/2019 5	(35.99)	(107.00)	(2.39)	(7.12)	(9.28)	(11.67)
2/1/2019 6	(35.99)	(107.00)	(2.39)	(7.12)	(9.48)	(11.87)
2/8/2019 7	(39.75)	(107.00)	(2.65)	(7.12)	(10.24)	(12.88)
2/15/2019 8	(39.75)	(107.00)	(2.65)	(7.12)	(10.44)	(13.08)
2/22/2019 9	(46.04)	(107.00)	(3.06)	(7.12)	(11.34)	(14.41)
3/1/2019 10	(46.04)	(107.00)	(3.06)	(7.12)	(11.55)	(14.61)
3/8/2019 11	(46.04)	(107.00)	(3.06)	(7.12)	(12.16)	(15.23)
3/15/2019 12	(46.04)	(107.00)	(3.06)	(7.12)	(12.36)	(15.43)
12 week shutdown - Deferred	\$ (1,283.99)		\$ (85.45)			\$ (85.45)
12 week shutdown - Loss	\$ (442.59)	\$ -	\$ (28.53)	\$ -	\$ (116.35)	\$ (144.88)

Impact on the District's Budget and Finances

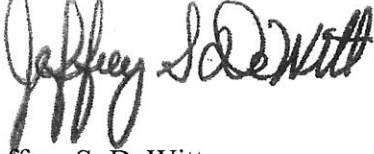
The District's fiscal year ending September 30, 2018 (FY 2018) results reflect the strongest financial condition of its history and is stronger than most cities and states in the country. The District reached the highest possible bond rating of Aaa from Moody's in FY 2018 and is nearing 60 days of operating reserves, giving it the ability to handle temporary downturns in revenues. However, the District is required to balance expenses with projected revenues, and this downturn may require adjustments to future spending unless the shutdown is shortly ended and the strong economic growth resumes. The District's Comprehensive Annual Financial Report (CAFR) will be published on February 1, and will be discussed, along with an update of the shutdown's impacts, at the public roundtable scheduled for February 4, 2019.

The shutdown estimates discussed will be incorporated into the February revenue estimates that establish the spending limits for the FY 2020 budget process. The local tax base in the current FY 2019 budget is \$7.821 billion. Assuming the shutdown continues through the 8-week or 12-week periods, the percent reduction in local taxes, all other factors unchanged, would be 1.1% in FY 2019 for the 8-week shutdown and 1.85% for the 12-week shutdown. These percentages reflect the estimated \$85.21 million 8-week loss and the \$144.88 million 12-week loss.

The estimates provided reflect the best available information on the cost of the shutdown on District taxes. Actual employer withholding taxes filed by impacted federal agencies and other impacted employers, as well as business sales taxes that will be filed in February will provide a more definitive view of the impacts.

Please contact me at (202) 727-2476 should you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey S. DeWitt". The signature is fluid and cursive, with the first name "Jeffrey" being more prominent and the last name "DeWitt" following in a similar style.

Jeffrey S. DeWitt

cc: The Honorable Eleanor Holmes Norton
 The Honorable Anita Bonds (At-Large)
 The Honorable David Grosso (At-Large)
 The Honorable Elissa Silverman (At-Large)
 The Honorable Robert White, Jr. (At-Large)
 The Honorable Brianne Nadeau (Ward 1)
 The Honorable Jack Evans (Ward 2)
 The Honorable Mary M. Cheh (Ward 3)
 The Honorable Brandon Todd (Ward 4)
 The Honorable Kenyan McDuffie (Ward 5)
 The Honorable Charles Allen (Ward 6)
 The Honorable Vincent C. Gray (Ward 7)
 The Honorable Trayon White, Sr. (Ward 8)