THE PEW CHARITABLE TRUSTS

How D.C. is forecasting + managing the fiscal implications of COVID-19

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Today’s webinar

- **Norton Francis**
  D.C. Director of Revenue Estimation,
  D.C. Office of the Chief Financial Officer

- **Don Boyd**
  Co-director of the State and Local Government
  Finance Project, Rockefeller College
  State University of New York at Albany
  Principal of Boyd Research

Questions?

- Please submit a question by clicking the control panel on the right side of the screen.
- Once you do so, enter your query in the "Questions" box. We ask that you please include your state.

District of Columbia

Overview

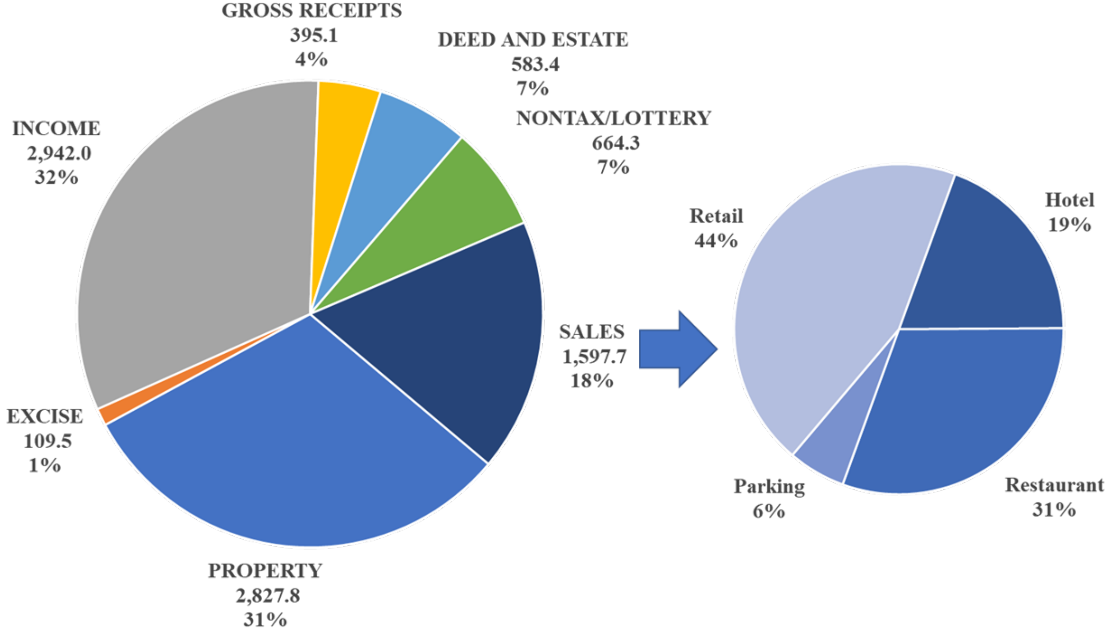
- Prelude
- COVID Strikes!
- Estimate methodology
- Policy responses
- Diagnosis
- Lessons

Disclosure: viewpoints represented in this presentation are those of the presenter and not those of the Chief Financial Officer.

District of Columbia

PRELUDE: Overview of D.C.

Gross General Fund FY 2019: $9.6 Billion



- District of Columbia operates as city, county, and state
  - City revenues: real estate transfer, traffic fines, licenses and permits, sales and excise taxes
  - County revenues: property taxes
  - State revenues: income, estate, lottery, sales and excise
- Balanced budget requirement over current year, budget year plus three forecast years
- Complicated federal relationship

District of Columbia

PRELUDE: Economic Trends

- Strong economy
- Population growth over 2005-2015 decade
- Urbanization trend benefitted District
- Foodie hotspot
- Significant new development
- Convention destination

- **Fiscal Year 2019 closed with over $300 million surplus and fully funded reserves of $1.4 billion**

District of Columbia

PRELUDE: Recession Planning

- Recession planning exercise began Fall 2019

WHY?

- Longest expansion on record
- Yield curve inversion summer 2019
- Population growth slowed
- Housing affordability crisis
- International uncertainty
- Demonstrate fiscal condition for ratings agencies

OUTCOME

- Alternate scenarios of moderate and severe recession
- Identified immediate, mid term and long term policy options
- Assessment of fiscal resiliency

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PRELUDE: Recession Planning

RECESSION SCENARIO RESULTS

$ millions	FY21	FY22	FY23	FY24	Financial Plan
Gap to Address					
Revenue reduction	-$345.5	-$484.9	-$525.2	-$441.3	-$1,796.8
Spending increases	(7.4)	(38.1)	(15.7)	(16.2)	(77.4)
Net Impact to Address	**(352.9)**	**(523.0)**	**(540.9)**	**(457.5)**	**(1,874.2)**
Remedies					
Cash reserve funds (1)	94.0	145.0			239.0
Reserve fund - repayment (2)			(119.5)	(119.5)	(239.0)
Other reserves/reduced PAYGO (3)	150.0	-	-	-	150.0
Treasury recession financial tools (4)	108.9	125.9	167.9	171.3	573.9
Subtotal	**352.9**	**270.9**	**48.4**	**51.8**	**723.9**
Gap remaining	$0.0	-$252.1	-$492.5	-$405.7	-$1,150.3
Share of baseline revenue		-2.6%	-5.0%	-4.0%	

(1) Use of cash reserves leaves 50 days operating revenues
(2) Assume reserve fund payback begins in FY 2023
(3) Special purpose revenue reserves, PAYGO reserve, and other one-time resources
(4) Consists of structured refundings and reduced defeasances, lower interest rates, and other actions

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PRELUDE: February Estimate

February 2020 Estimate

- ORA preparing certified revenue estimate for Mayor's budget recommendation
  - *All data leading up to February positive and strong*
  - *Preliminary estimate increasing prior estimate by 1-2%*
  - US announces limited travel ban from China
  - Italy shuts down certain regions and stops international travel
- Decision to not revise estimate except for adjustments to FY 2020 (Oct 2019-Sept 2020)
  - *SP500 drops 13% from peak in week leading up to publication and COVID-19 spreading through Europe*
  - *Yield curve inverts (again)*
  - *Main concern was slowdown in economy and disruption in international travel (conventions and tourism)*

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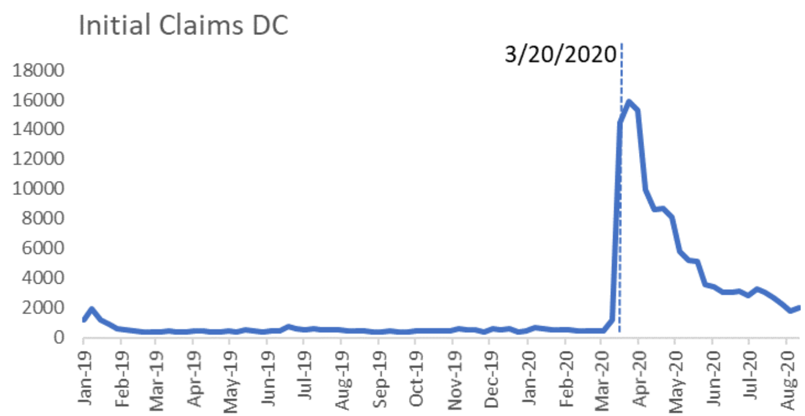
COVID Strikes!

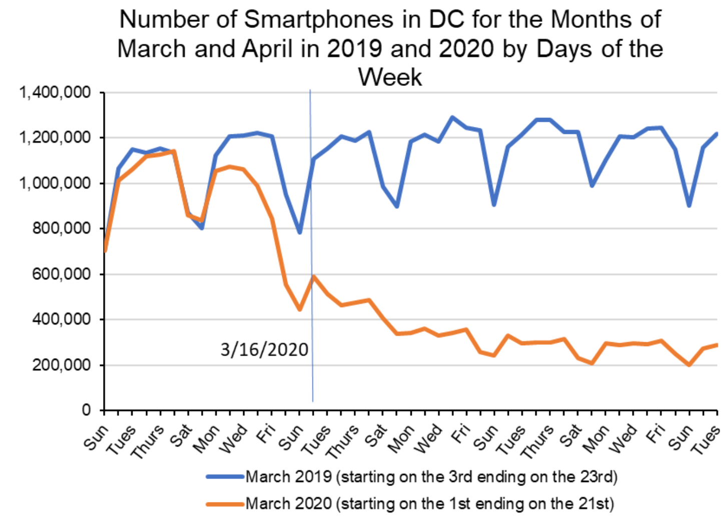
- CFO presented recession scenario to Council March 9th
  - The same day the Mayor briefed the Council on COVID monitoring measures being implemented
- New world began March 16th
  - DC Government requires telework for most employees through March (extended now through October 9th)
  - Schools closed through March (extended through November 6th)
  - Restaurants and retail severely restricted or closed
  - Office workers including federal government also switch to telework
- Immediate impact unprecedented
  - Recessions are not usually as fast as the COVID recession
  - Isolated experience from natural disasters but not useful for economy-wide disruption

District of Columbia

COVID Strikes!



Source: D.C. Department of Employment Services



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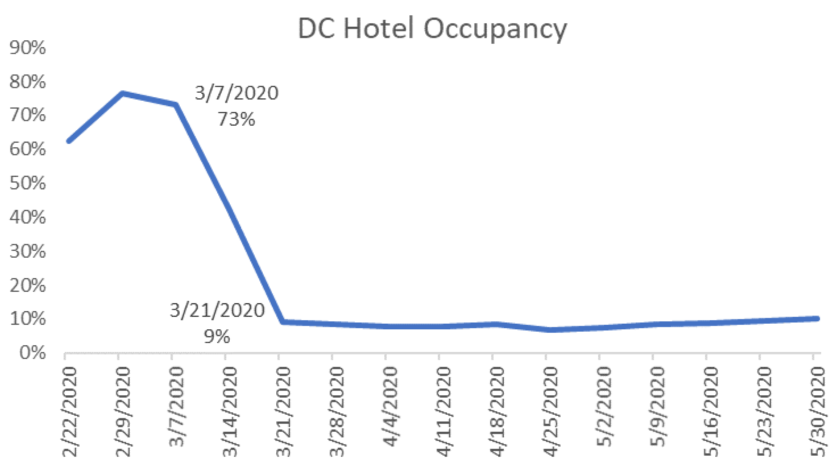

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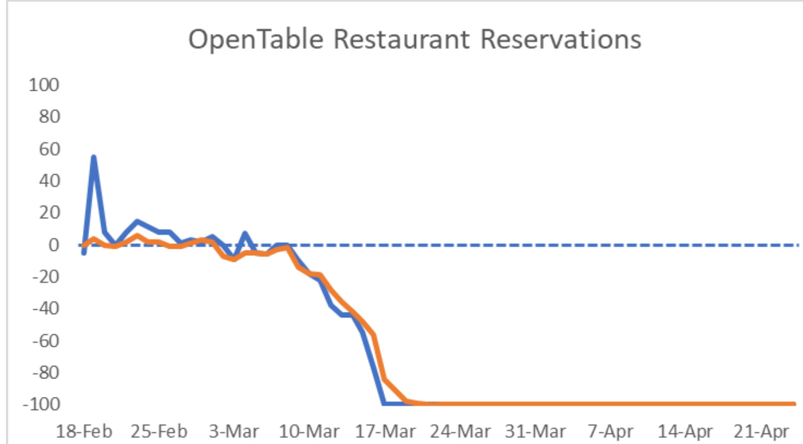

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COVID Strikes!

IMMEDIATE ACTIONS

- Deferred real property tax payments for hotels until June
- Deferred sales tax remittance until July for non-hotels
- Flexible changes to restaurant operation
- $33 million small business grant program

FEDERAL RELIEF

- Deferred individual and business income tax filing and payment deadlines (DC did as well)
- Additional unemployment insurance
- Paycheck Protection Program (PPP)
- Direct state ***and territory*** relief for COVID related expenditures

BUDGET DELAY

- Mayor and Council agree to delay FY 2021 budget timeline
  - Asks the Chief Financial Officer to prepare an estimate by April 24th with a follow up in August.
  - Mayor to submit proposed budget on May 5th
  - Cuts time for congressional review very close to start of fiscal year
- CFO gives Mayor a “temperature check” at the end of March for budget planning purposes

District of Columbia

ESTIMATE METHODOLOGY

ECONOMIC FORECASTS

- No longer useful – economy driven by virus now
- Not precise enough – monthly estimate required until vaccine execution

ALTERNATIVE DATA

- High Frequency: restaurant reservations, credit card transactions, and smartphone usage
- Advisory groups: Weekly call with hospitality industry reps and interviews of real estate advisory group members

TIMELINE

- Amateur epidemiology
- Phases of recovery
- Atypical assumptions

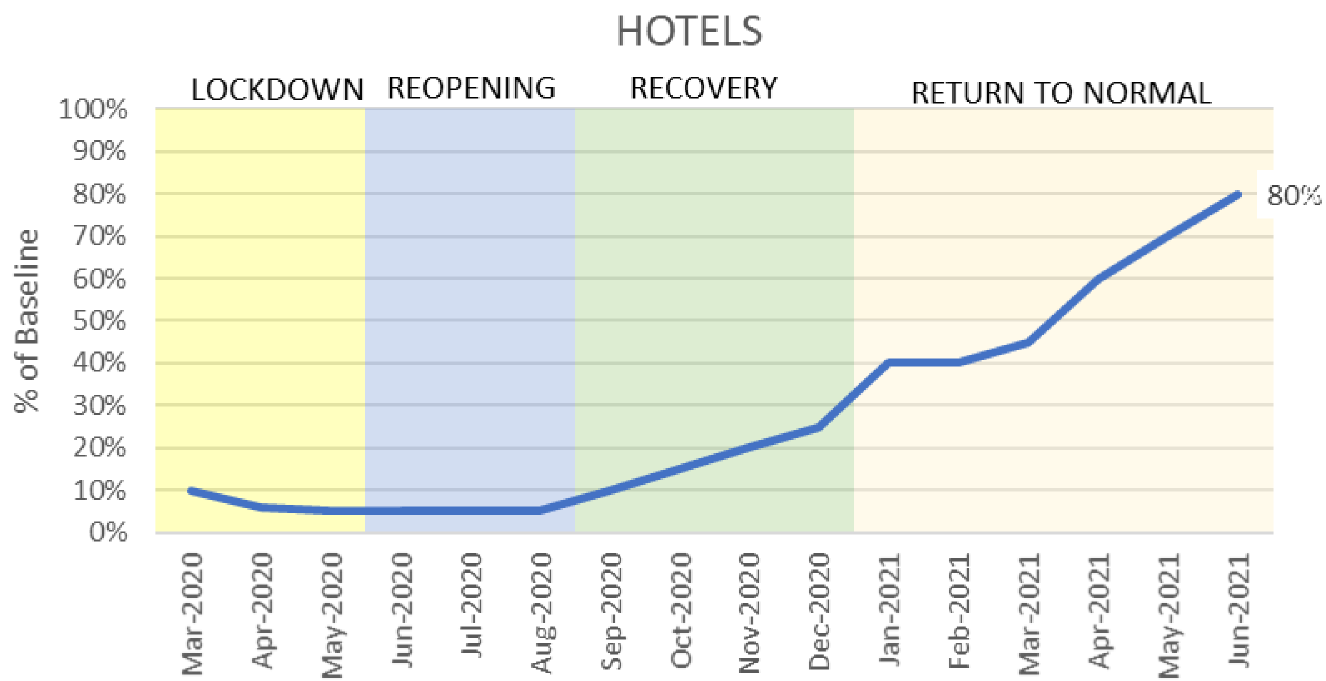
During the first few months of the coronavirus pandemic, the United States became a nation of novice hermits and amateur epidemiologists.
(Washington Post 8/16/2020 "Don't just look at Covid-19 fatality rates" McArdle, Megan.

ESTIMATE METHODOLOGY

- ESTABLISHED A TIMELINE OF THE DISTRICT ECONOMY
  - For major “economic activity” revenue, history and new forecasts irrelevant for next few months
    - Withholding of individual income taxes
    - Sales taxes
    - Real estate transfer/recordation taxes
    - Nontax revenue (licenses/permits, fines)
  - Everything relative to February estimate as “baseline”
  - For other revenues, normal modeling with a three quarter recession was used.

District of C...

ESTIMATE METHODOLOGY

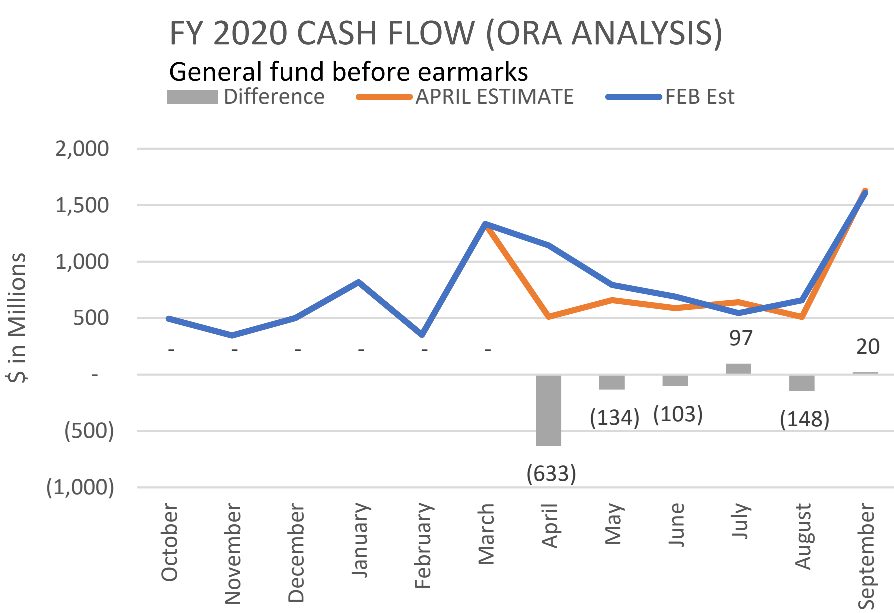


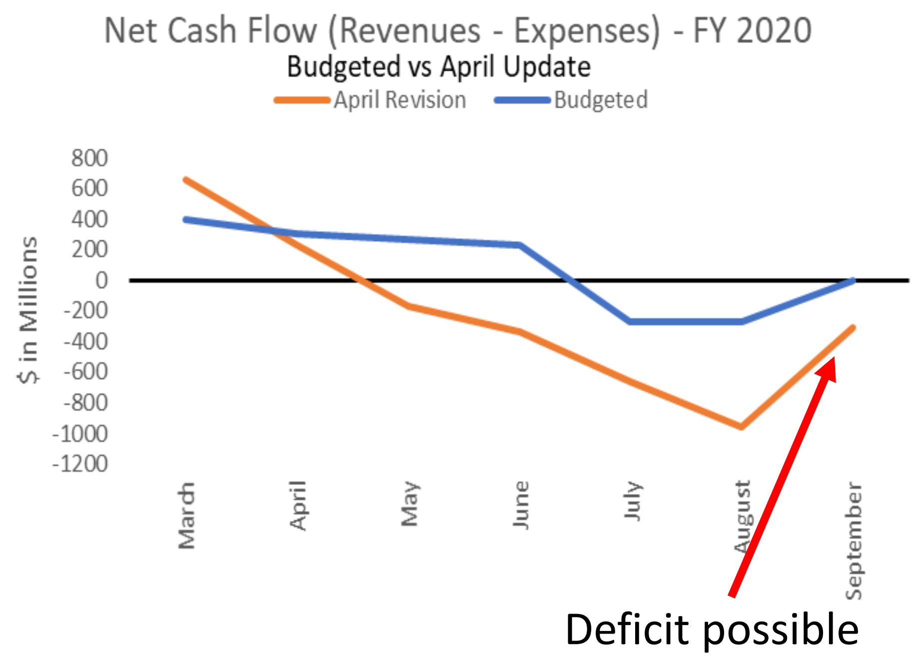
Separate timelines for:

- Hotels
- Restaurants
- Bars/Performance space
- Retail (traditional and online)
- Telework
- Residential property activity
- Commercial property activity

ESTIMATE METHODOLOGY

- Monthly tracking for cash flow (left) used to project cash balances (right)





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ESTIMATE METHODOLOGY

April revenue estimate compared to previous estimate

Local Source, General Fund Revenue Estimate ($ millions)	Actual FY 2019	Estimated FY 2020	FY 2021	FY 2022	Projected FY 2023	FY 2024
February 2020 Revenue Estimate	**8,314.9**	**8,452.0**	**8,690.0**	**8,975.9**	**9,249.2**	**9,547.1**
April revision to estimate		*-721.8*	*-773.6*	*-605.6*	*-568.1*	*-555.1*
April 2020 Revenue Estimate		**7,730.2**	**7,916.4**	**8,370.3**	**8,681.1**	**8,992.0**
Revenue Change from Previous Year						
Amount	556.5	(584.7)	186.2	453.9	310.9	310.8
Year-Over-Year Percent Change	*7.2%*	*-7.0%*	*2.4%*	*5.7%*	*3.7%*	*3.6%*

- April 24, 2020, estimate relative to February 2020 estimate – Local fund only (after earmarks)
- Decline year over year in 2020 - 7% recovering some in 2021
- Revenue in 2019 not recovered until 2022

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POLICY RESPONSE: FY 2021 Budget

- Fund Balance Use
  - Full use of FY19 surplus
  - Full use of Fiscal Stabilization Reserve (most flexible reserve fund)
- Debt service action
  - Deferred Ballpark Stadium Bond Defeasance
  - Used estimated bond refinancing savings in FY21 and FY22
- New revenue
  - Enhanced collections
  - Targeted tax expenditure changes
- Gap closing expenditure reduction
  - Freeze on cost-of-living salary adjustments (even previously negotiated)
  - Assumed no pay growth in the out-years of the plan
  - Travel and hiring freeze

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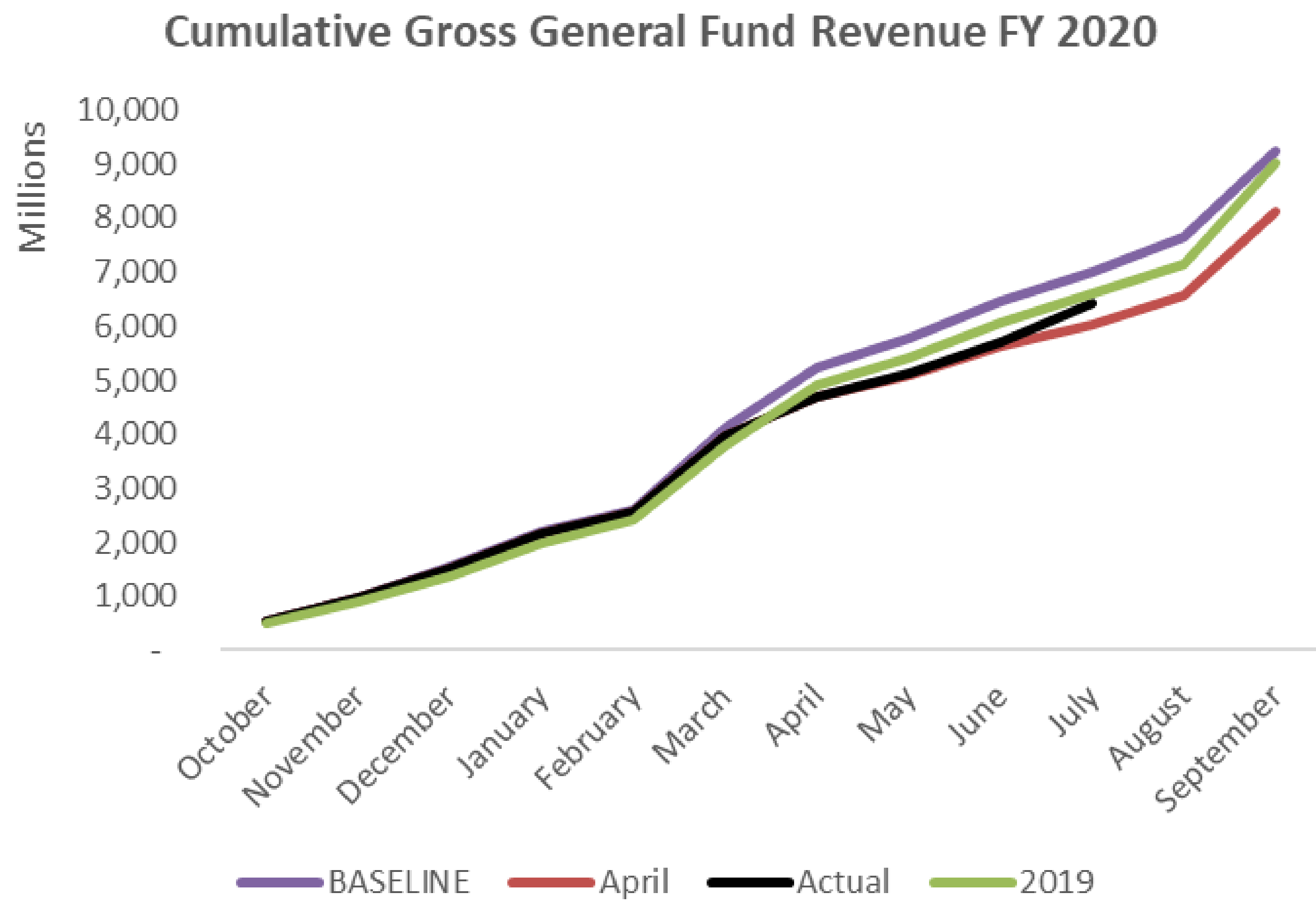
DIAGNOSIS



DIAGNOSIS

What we got right (so far)

- Sales tax reductions mostly on target
  - Remote sales
- Absent large building sales, deed transfer taxes mostly on target
  - Tax rate change kept revenue up
  - Three building sales already in works closed in March and May
- Tax deferrals for hotels and retailers

What we missed (so far)

- Strong withholding
  - Telework and PPP maintained employment
  - Unemployment compensation taxed in the District
- Unemployment rate
- Deed recordation tax
  - Low interest rates spurred refinancing
  - A few large office buildings sold
- Automated traffic fines

LESSONS

- Recession plan was enormous benefit
  - Blueprint ready to go
  - Ability to take more time to assess
- Importance of reserves
  - Allowed breathing room while situation was chaotic
  - Prevented drastic mid-year cuts
- Flexibility in estimation
  - Pivot to new methodology critical
  - New data sources identified and qualified

BUT…

- We are not out of it yet
- Plan to keep using timeline method until there's more clarity in the economic data
- We are just starting to grapple with the long term effects of expanded telework, virtual school, and other fundamental changes to the economy

Questions?

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Angela Oh
Senior manager, state fiscal health
aoh@pewtrusts.org
pewtrusts.org/fiscal-health