How D.C. is forecasting + managing the fiscal implications of COVID-19
August 26, 2020
Today’s webinar

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  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.
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 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
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
Office of the Chief Financial Officer

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
### PRELUDE: Recession Planning

#### RECESSION SCENARIO RESULTS

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

(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)
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
COVID Strikes!

District of Columbia

Initial Claims DC

Source: D.C. Department of Employment Services

DC Hotel Occupancy

Source: ©STR adjusted by EventsDC

Number of Smartphones in DC for the Months of March and April in 2019 and 2020 by Days of the Week

Source: ©Thasos Group

OpenTable Restaurant Reservations

Source: © 2020 OpenTable, Inc.
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
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.
ESTIMATE METHODOLOGY

Separate timelines for:
- Hotels
- Restaurants
- Bars/Performance space
- Retail (traditional and online)
- Telework
- Residential property activity
- Commercial property activity
• Monthly tracking for cash flow (left) used to project cash balances (right)

FY 2020 CASH FLOW (ORA ANALYSIS)

<table>
<thead>
<tr>
<th>General fund before earmarks</th>
<th>April REVISION</th>
<th>FEB Est</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference</td>
<td>APRIL ESTIMATE</td>
<td></td>
</tr>
</tbody>
</table>

Net Cash Flow (Revenues - Expenses) - FY 2020

Deficit possible
### ESTIMATE METHODOLOGY

District of Columbia

**April revenue estimate compared to previous estimate**

<table>
<thead>
<tr>
<th>Local Source, General Fund Revenue Estimate ($ millions)</th>
<th>Actual FY 2019</th>
<th>Estimated FY 2020</th>
<th>Estimated FY 2021</th>
<th>Estimated FY 2022</th>
<th>Estimated FY 2023</th>
<th>Estimated FY 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 2020 Revenue Estimate</td>
<td>8,314.9</td>
<td>8,452.0</td>
<td>8,690.0</td>
<td>8,975.9</td>
<td>9,249.2</td>
<td>9,547.1</td>
</tr>
<tr>
<td>April revision to estimate</td>
<td></td>
<td>-721.8</td>
<td>-773.6</td>
<td>-605.6</td>
<td>-568.1</td>
<td>-555.1</td>
</tr>
<tr>
<td>April 2020 Revenue Estimate</td>
<td>7,730.2</td>
<td>7,916.4</td>
<td>8,370.3</td>
<td>8,681.1</td>
<td>8,992.0</td>
<td></td>
</tr>
</tbody>
</table>

**Revenue Change from Previous Year**

<table>
<thead>
<tr>
<th>Amount</th>
<th>Actual FY 2019</th>
<th>Estimated FY 2020</th>
<th>Estimated FY 2021</th>
<th>Estimated FY 2022</th>
<th>Estimated FY 2023</th>
<th>Estimated FY 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>556.5</td>
<td></td>
<td>(584.7)</td>
<td>186.2</td>
<td>453.9</td>
<td>310.9</td>
<td>310.8</td>
</tr>
</tbody>
</table>

| 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
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
DIAGNOSIS

Cumulative Gross General Fund Revenue FY 2020

Months
- 10,000
- 9,000
- 8,000
- 7,000
- 6,000
- 5,000
- 4,000
- 3,000
- 2,000
- 1,000

October
November
December
January
February
March
April
May
June
July
August
September

Millions

BASELINE
April
Actual
2019
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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