

Budget Implications of the Growth in Population and Employment in the District of Columbia

Addressing the Effects of the Financial Structural Deficit

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Budget Implications of Growth in Population & Employment in the District of Columbia

- The Effect of Financial Structural Deficit -

- For at least 30 years, the District of Columbia ("District") has faced a chronic financial structural deficit affecting its long term budget stability. Recently measured at many hundreds of millions of dollars a year, this imbalance constrains the services that the government can provide at affordable tax-prices.
- No longer just a claim by the District, the structural imbalance is verified by the Government Accountability Office ("GAO") in its May 2003 report. The District's limited tax base is far exceeded by high service costs (due to resource prices and services loads). The size of the gap in FY2000 was between \$470 million and \$1.16 billion, or roughly \$500 million to \$1.2 billion in current dollars. On the low end, the range reflects revenues and service bundles more like those of states, while the high-end is more characteristic of urban revenues and services. Because the District is clearly a city from an economic perspective, we argue that the annual deficit is roughly \$1 billion, based in 2000.
- In the 3 decades since the District achieved near political independence with "Homerule," this deficit has been manifest in various ways (including a financial collapse in the mid-1990s) and, always, by cutting short investment in infrastructure and capital maintenance. Depending on how it is measured, estimates of the future capital deficit alone can range upward to \$30 billion dollars.
- The structural imbalance is measured after taking into account the special services granted to D.C. by the federal government (for examples the courts and prisons) in recognition of the District's city-without-a-state status. Contrary to common misperceptions, however, the District receives little special financial relief (some would say "pork") from the federal government. Indeed, with no voting representation in Congress D.C. is not likely ever to receive huge sums. Instead, the District must find other ways to pay the costs associated with the services it provides.
- While there may be number of ways for the District to close the gap of structural imbalance, one particular alternative is to add net revenue producing jobs and/or population. To achieve such a goal the District may need to either encourage population growth, facilitate job growth, or a combination of both.
- The purpose of this discussion is to provide an analysis of how either of the alternatives can affect the District's budgetary base. As such, each of the alternatives are explored and explained in this study.

FACTS

- GOA's May 2003 report verifies the existence of a prolonged structural imbalance
- This imbalance is due to the District's limited tax base and significant difference between the costs of services needed by its residents and guests and the revenue raised at reasonable rates to cover these costs
- The size of the gap in FY2000 was between \$470 million and \$1.6 billion, or roughly between \$500 million and \$1.2 billion in current dollars

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REDUCING THE STRUCTURAL IMBALANCE

- To close the gap of structural imbalance, the District can enhance revenue sources and control costs
- Three proposed ways of achieving this goal
 - Encourage population growth
 - Facilitate job growth
 - Combination of both

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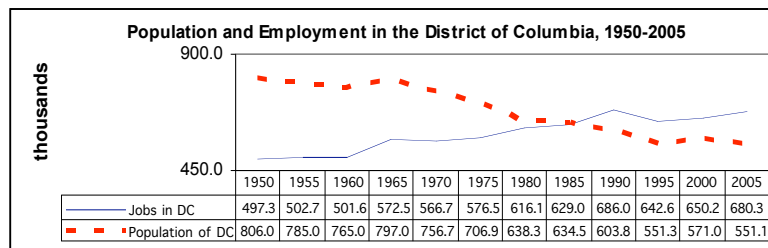
THE DISTRICT'S POPULATION AND JOBS

- The population of the District has declined since the 1950s
- During the last several years the District has been experiencing a strong demand for housing
- This demand may now signal population growth
- At the same time, current types of housing demands suggest a growth in the proportion of the population with a higher than average income
- The number of jobs in the District has been growing gradually

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Jobs and Population – Economic Development That Adds to Budget Stability for the District of Columbia

- The District of Columbia has gained employment and lost population for more than 50 years (an average annual employment growth of 0.6% vs. population decline of 0.7%)
- How to address this trend is a critical decision facing policy makers
- This analysis is about how the decision may affect the District's long-term structural (budgetary) imbalance

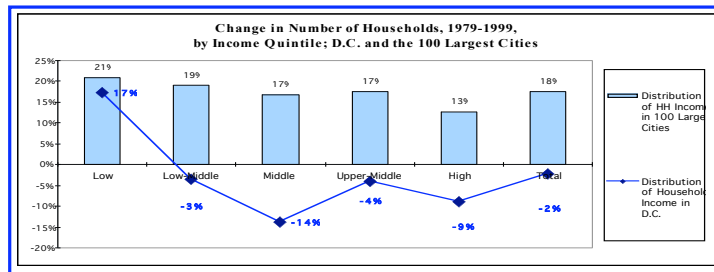


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THE ECONOMIC FORCE IN THE DISTRICT

- D.C., had a declining middle-class (-14%) and growth of lower-income households (+17%) in 1979-1999
 - Only 8 of the 100 largest U.S. cities enough drop in the middle class to be called “divided” cities – by Berube & Tiffany
 - D.C.’s lowest income population grew by 17% while overall population of households dropped by 2%

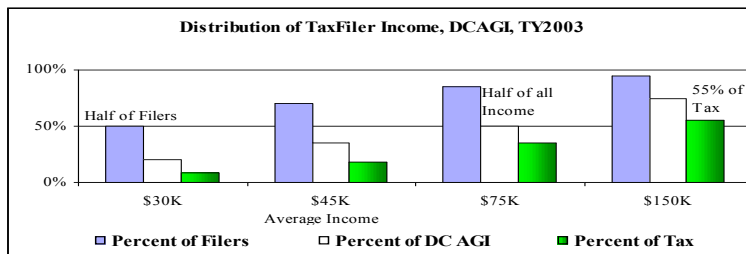
Alan Berube & Thacher Tiffany, “The Shape of the Curve: Household Income Distributions in U.S. Cities, 1979-1999,” August 2004, The Brookings Institution, reporting on the U.S. Census of 1980 and 2000.



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INCOME DISTRIBUTION FOR TY2003

- Average income per filer of about \$45,000
- Median (middle-most) household income of about \$30,000
- The first 85% of filers have 50% of all income



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INCOME DISTRIBUTION of Tax filers

- Average income per filer is about \$45,000
- Median (middle-most) household income is about \$30,000 or 2/3 of average income
- The first half of income corresponds to the 85% of filers with adjusted gross income below \$75,000

TY2003 D.C. Adjusted Gross Income (rounded), form D-40						
	All Filers Up to Income Level:				Income of Top 15%	Income of Top 5%
	\$30K	\$45K	\$75K	\$150K		
Percent of Filers	50%	70%	85%	95%	15%	5%
Percent of DC AGI	35%		50%	80%	50%	20%
Percent of Tax	8%		35%	55%	65%	45%
Total Filers = 263,000	Half of all filers ~\$30,000	Average Income per Filer ~\$45,000	Half of All Income		Income ~\$75,000+	Income ~\$150,000+

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The Self-Sufficiency Standard for Selected Family Types – District of Columbia, 2005

- Monthly Expenses and Shares of Total Budgets

	One Adult		One Adult, One Preschooler		One Adult, One Preschooler, One Schoolage		Two Adult, One Preschooler, one Schoolage	
	Costs	% of total	Costs	% of total	Costs	% of total	Costs	% of total
Monthly Costs								
Housing	\$836	47	\$949	28	\$949	24	\$949	21
Child Care	\$0	0	\$880	26	\$1,211	31	\$1,211	27
Food	\$225	13	\$342	10	\$487	12	\$737	16
Transportation	\$114	6	\$114	3	\$114	3	\$229	5
Health Care	\$97	5	\$248	7	\$267	7	\$315	7
Miscellaneous	\$127	7	\$253	7	\$303	8	\$344	8
Taxes	\$370	21	\$770	23	\$871	22	\$959	21
Earned Income								
Tax Credit (-)	\$0	0	\$0	0	\$0	0	\$0	0
Child Care								
Tax Credit (-)	\$0	0	-\$53	-2	-\$100	-3	-\$100	-2
Child Tax Credit (-)	\$0	0	-\$83	-2	-\$167	-4	-\$167	-4
Total Percent	---	100	---	100	---	100	---	100
Self-Sufficiency								
Wage-Hourly**								
Monthly	\$10.05		\$19.44		\$22.35		\$12.72	per adult
Monthly	\$1,769		\$3,422		\$3,934		\$4,477	per adult
Annual	\$21,224		\$41,063		\$47,213		\$53,727	per adult

Source: The Self-Sufficiency Standard for the Washington, D.C. Metropolitan Area 2005, Sept. 2005

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INDIVIDUAL INCOME TAX FILERS FOR TY2003


Individual Income Tax Filers, by DC AGI Category and Filer type, TY2003							
<small>These returns represent 263,546 filers and an estimated 400,000 residents. Remaining residents (about 30% of population) do not file returns because they are 1) students, 2) exempt from DC tax by federal/local policy, 3) too poor, 4) tax evaders, and other reasons</small>							
	<u>Est. Size Filer Household</u>	<u>Ave No. Income earners</u>	<u>Ave HH Income</u>	<u>Est Ave Inc per person</u>	<u>Pct part-year residents</u>	<u>Total Number Returns</u>	<u>Pct Returns < \$50,000</u>
All filers	1.5		\$ 45,000	\$ 30,000	17%	263546	72%
Single	1	1	\$ 37,500	\$ 37,500	23%	146,564	75%
Single Head of Household	2.6	1	\$ 28,000	\$ 10,769	4%	57,524	89%
Combined Separate	2.4	2	\$ 127,000	\$ 52,917	8%	14,992	19%
Married Joint	2.4	2	\$ 86,000	\$ 35,833	13%	27,940	47%
Married Separate	1.2	1	\$ 48,000	\$ 40,000	15%	7,834	70%
Dependent Returns	NA	1				7,452	

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IMPACT OF CERTAIN POPULATION CHANGES

- The current population mix of the District tax filers generates enough revenue to cover costs of services to them
- The more affluent population contributes more to the District's coffers and at a much lower cost to the city, since they require fewer services
- There is a negative net revenue impact associated with increase in the low-income population who would require more and costlier services and less revenues
- A mix of population growth resembling the current District demographics may neither help nor cost the city, as costs and revenues associated with this growth are in approximate balance

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An Exercise to Determine the Impact of Certain Job Growths on the Budget

- Four main job sectors that have been growing and are major employment areas in the District of Columbia have been identified and analyzed

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THE TYPES OF JOBS

- Retail Trade
- Professional Services
- Business Services
- Non-Profit Associations

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Adding Sufficient New Jobs to “Attract” 1,000 New Population

Estimated Earnings per new D.C. Resident from Growth in Employment

Sufficient net new jobs in DC to correspond to 1000 population affected by the new jobs:

TABLE (a): "Average" Income Jobs

based on REMI model for Washington Metropolitan Area

	May-04 Jobs in DC	Total jobs after multipliers	Jobs for Residents	Jobs to DC Residents	DC DC Wage per resident job
Retail Trade	17,200	114	38	\$	30,687
Legal & Prof Services	97,200	803	235	\$	72,421
Business Services	36,900	254	80	\$	43,641
Professional Assns	49,900	358	109	\$	57,230
	201,200	1529	463	\$	60,410

TABLE (b): "Median" Income Jobs

	May-04 Jobs in DC	Total jobs after multipliers	Jobs for Residents	Jobs to DC Residents	DC DC Wage per resident job
Retail Trade	17,200	114	38	\$	20,560
Legal & Prof Services	97,200	803	235	\$	48,522
Bsn Services	36,900	254	80	\$	29,239
Professional Assns	49,900	358	109	\$	38,344
	201,200	1529	463	\$	40,474

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APPROXIMATED DC TAX REVENUE PER NEW JOB

Est'd Total: Business Tax Revenue per job by industry, FY2002

Retail	\$ 4,000
Profession Services	\$ 1,000
Business Services	\$ 3,750
Professional Associations	\$ 700

* Tax includes withholding, sales, personal & real property, franchise

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THE IMPLICATIONS OF NEW JOBS FOR THE DISTRICT'S BUDGET WHEN EXPENDITURES ARE INCLUDED

- Retail Trade and Business Services
 - Make the most contributions by generating sales tax, in addition to other revenues
 - Result in the most positive net budgetary impact for the District

- Non-profit Sector
 - Employment growth is good for the District's economy
 - Not being considered as a source of budgetary improvement

- Professional Services Sector
 - The jobs neither hurt nor help the District's long term budgetary prospects

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APPROXIMATED BUDGETARY IMPACT FROM GROWTH IN EMPLOYMENT AND POPULATION – 4 INDUSTRIAL SECTORS

- Assumes average wages in Retail and Business Services
- Assumes D.C. resident wages in Professional Services and Professional Associations are below industry averages. Current growth in the number of higher-income households may change this outcome

Sufficient new employment to “attract” 1,000 new population to the District of Columbia

SM	Revenue from new households	Revenue from new jobs	Expenditure on new Population	Expenditure on jobs	Net Impact from New Jobs and New Population
Retail Industry	\$ 1.8	\$ 4.9	\$ 3.6	\$ 1.4	\$ 1.6
Professional Services Industry	\$ 2.9	\$ 1.8	\$ 2.9	\$ 1.3	\$ 0.5
Business Services Industry	\$ 2.6	\$ 4.2	\$ 3.5	\$ 1.5	\$ 1.8
Professional Associations	\$ 1.8	\$ 1.2	\$ 3.5	\$ 1.5	\$ (2.0)
4-Industry Mix	\$ 2.3	\$ 3.0	\$ 3.5	\$ 1.4	\$ 0.4

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CONCLUSION

- As long as the long term budgetary stability is concerned the followings are few among many factors that the District has to consider

- Reducing the structural imbalance by:
 - Encouraging population growth
 - Encouraging job growth
 - A combination of both

- The District should consider the costs and benefits of each of the above and the “environmental” factors that can influence the ultimate impact on the structural deficit in the District. Not all growths are equally beneficial