

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



**Natwar M. Gandhi**  
Chief Financial Officer

**MEMORANDUM**

**TO:** Harriet Tregoning  
Director  
D.C. Office of Planning

**FROM:** Natwar M. Gandhi  
Chief Financial Officer

**DATE:** November 26, 2013

**SUBJECT:** DC Population Growth's Virtuous Cycle

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After decades of decline, the District's population is growing once again. The population growth has contributed significantly to the District's prosperity in recent years. Here are a few examples of how the recent demographic changes in the District have changed and are still changing its economic and fiscal landscape. First, at the depths of the Great Recession, DC withholding income and sales tax revenue growth remained positive, even as the unemployment rate shot up to just over 11%. As many District residents lost low-paying jobs, a surge in income tax revenue from an influx of higher income residents, arriving to fill high-skilled jobs on offer as the federal government expanded, more than offset the reduction in income tax revenue from the low-income job losses. The new residents, with relatively high disposable income, also spent in District restaurants and its growing retail sector, boosting sales tax revenue, when sales tax revenue was falling almost everywhere else. As a result, District withholding and sales tax revenue held up better than elsewhere and helped to minimize budget dislocation during the worst part of the recession.

Second, the rising population has buoyed the residential property market. While the District housing values fell during the housing bust, as they did throughout the US, values did not fall as steeply as they did elsewhere. Nationally, the Federal Housing Finance Agency (FHFA) expanded housing price index fell 26% from its peak in 2006 to its lowest point in early 2012. For the DC metropolitan area the index fell 38% from peak to trough. In the District, the index fell only 16%. The District housing market also recovered much more quickly than elsewhere.

Third, the growing number of younger, highly educated cohorts is spurring a nascent tech startup culture in DC. Economists call this phenomenon "economies of agglomeration"—the sparking of innovation and increased productivity associated with a clustering of people with similar skills. A Washington Business Journal article earlier this year counted the number of DC area startups on AngelList, a popular web-based platform that connects startups with angel investors. The

November 26, 2013

Page 2

figures showed that of nearly 1,000 tech startups listed on AngelList for the DC area 420 were in DC, 214 in Maryland, and 295 in Virginia. And just a week ago a Washington Post technology blog cited a PriceWaterhouseCooper's report that ranked the DC area fifth among the most active regions for investment capital in the nation. According to report, in 2011, about \$1 billion in venture capital flowed into the region, the bulk of which centered on a single zip code (20005) in the District.

These examples demonstrate how the recent demographic changes have sparked a virtuous cycle, which has been a boon for DC's economy and finances. The growing population of younger, highly educated cohorts brings more revenue to DC coffers, which fund more and better services and amenities, which increase the attractiveness of DC as a place to live and work, and so on.

cc: Angell Jacobs, OCFO Deputy CFO & Chief of Staff  
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