PUBLIC BRIEFING
ON THE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
(CAFR) FOR FY 2006

Before the
Committee of the Whole
Council of the District of Columbia

The Honorable Vincent C. Gray, Chairman

February 5, 2007, 10:00 a.m.
Council Chambers

Testimony of
Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairman Gray and members of the Committee of the Whole. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia Government. With me are deputy chief financial officers with whom most of you are familiar: Tony Pompa of the Office of Financial Operations and Systems, Robert Ebel of the Office of Revenue Analysis, Bert Molina of the Office of Budget and Planning, Lasana Mack of the Office of Finance and Treasury, and Sherryl Hobbs Newman of the Office of Tax and Revenue. It is our pleasure to be here today to discuss the Fiscal Year 2006 Comprehensive Annual Financial Report (CAFR). As it has come to be expected, this report was submitted on a timely basis, with an unqualified "clean" audit opinion from the independent auditors, and reflects a balanced budget.

OVERVIEW OF THE FY 2006 CAFR

The FY 2006 audit highlights the District's excellent financial position as evidenced by our 10th consecutive balanced budget and $325 million budgetary surplus. The steadfast commitment of the District's elected leaders to sound fiscal management has resulted in a "clean" audit opinion that reflects a nearly $2 billion turnaround in the cumulative general fund balance since 1996, from a $518 million deficit to a $1.435 billion positive balance. (See Attachment 1.) It is important to note that of that $2 billion increase in our fund balance, nearly half was accumulated in the post-control period. Indeed, our turnaround from "junk bond" status was faster than any other major city that has undergone a similar period of financial crisis, including New York, Philadelphia, Cleveland and Detroit. We have a fund balance and cash reserves that are among the highest in the nation – a far cry from a decade ago – substantially improved bond ratings, with "positive" outlooks from two of the three major rating agencies, Moody's Investors Service and Fitch Ratings, and well-deserved respect in the financial markets. These measures of success are attributable to the strong fiscal leadership of the District's elected officials.

I must stress again this year, however, that there remain structural issues that result in large capital needs in the District's infrastructure – such as substandard school buildings, roads, and bridges. The District's elected officials addressed some of these needs in the 2006 budget by funding certain projects through a planned reduction in the general fund balance, primarily for one-time spending items including paygo for capital projects and payments for retiree health benefits. More of these capital needs will be funded with proceeds of our next general obligation bond issue, which we will sell in March or April; but even with those funds, our needs remain substantial. We have a much higher business tax burden and higher debt ratios than other states or large jurisdictions. These are hurdles that continue to challenge the District even in the course of profound financial achievement.

Local Fund Budget

The general fund is composed of two funds – local and other. Of the $325 million general fund budgetary surplus, $223 million is the result of operations in the $5 billion local fund. (The remainder of the budgetary surplus – $102 million – resulted from other fund revenues ($399.4 million) exceeding other fund expenditures. Please note that "other funds" are monies dedicated for special purposes such as the Housing Production Trust Fund and the Neighborhood Investment Fund. As a result, any surplus still remains available for the originally earmarked purpose.)

Composition of $325 million General Fund Budgetary Surplus

($ millions)

	Local	Other	Total
Actual revenues	5,190	399	5,589
Actual expenditures	4,967	297	5,264
Surplus	223	102	325
Surplus attributable to:			
Operating margin in revised budget, June 2006	35	0	35
Higher/(lower) revenues compared to revised budget (the additional revenues recurring in later years were certified in December 2006)	101	(47)	54
Lower than anticipated “bond fiscal charges" (not supported by tax revenues)	31	0	31
Unspent appropriations	56	149	205
	223	102	325

On the expenditure side, the District ended the year with a small amount of unspent appropriations. Not including the “bond fiscal charge” supported entirely with bond proceeds, the unspent appropriation was $56 million, or only 1.1 percent of the revised $5 billion budget.

With respect to the revenue component of the surplus, the strong tax revenue growth that started in FY 2004 and continued in FY 2005 slowed somewhat in FY 2006. Compared to FY 2005, tax revenues gross of earmarked revenues grew by 6.3 percent in FY 2006, including 6.4 percent growth in sales and use tax revenue, 9.0 percent growth in real property tax revenue, and 6.3 percent growth in individual income tax revenue. Deed-taxes declined slightly, by 2.0 percent. Sales and use, real property, and the individual income taxes accounted for about 73 percent of all additional revenue.

The real property market has slowed, as evidenced by a decline in the number of sales of single family units by 20 percent, and condo sales declined 11 percent.

Although the number of sales declined, average prices of single family homes were up 8.6 percent and condominiums were up 3.4 percent over the previous year.

Overall, actual tax and non-tax collections ($4.7 billion of the total $5.2 billion revenues) were 5.2 percent above original estimates. This is a very reasonable result. In the past this variance has been 10 percent (FY 2000) and 9 percent (FY 2004 and FY 2005), but it has also been as low as 2.1 percent (FY 2003) and negative 1.4 percent (FY 2002).

The District has revenue sources typically used by states as well as cities. Individual income taxes and the general sales taxes – combined, 43 percent of the total – are particularly sensitive to economic and external effects and, thus, make District tax revenues volatile. In contrast, cities typically derive 40 to 50 percent of their revenues from the stable property tax, which in the District accounts for only 27 percent.

The following table shows the fluctuations in the District's personal income and, therefore, individual income taxes, just as the U.S. personal income fluctuates.

Year	DC Total Personal Income Change	US Personal Income Change
1996-97	4.3%	6.1%
1997-98	5.0	7.3
1998-99	2.7	5.1
1999-2000	9.4	8.0
2000-2001	10.5	3.5
2001-2002	1.0	1.8
2002-2003	5.4	3.2
2003-2004	7.8	6.2
2004-2005	5.9	5.2
2005-2006	5.5	6.4

The District's unique mix of revenue sources and the resulting volatility calls for realistically conservative revenue estimates to ensure a balanced budget when all is said and done. As I have said before, the District's revenue estimates must be somewhat conservative as a matter of both necessity and good financial management. Having successfully completed one financial control period, the District's elected leadership is very clear about not risking a second. Financial control, however well-intentioned, still means the loss of basic freedoms granted under home rule. Realistically conservative estimates are at the heart of a balanced budget and adequate cash flow and, hence, at the heart of avoiding a second control period. The District must end every fiscal year with a balanced budget.

After the initial revenue estimates are issued, we constantly monitor the revenue potential of our economic base and revise our estimates every quarter. Thus, we added approximately $200 million to the original revenue estimate. The table below shows the history of revenue estimates for FY 2006 and the consequent tax policy changes.

Certification History and Tax Policy Changes for FY 2006 Estimate ($ millions)		
Revenue Estimates		
February 2005		4,515.1
Added May 2005		40.0
Added September 2005		51.7
Added December 2005		53.8
Added February 2006		6.6
Added May 2006		43.0
	Subtotal	**4,710.2**
Tax Policy Changes		
Changes included in FY 2006 budget		(119.4)
Tax reductions triggered by September 2005 estimate		(21.5)
Tax reductions triggered by December 2005 estimate		(24.3)
Tax reductions triggered by May 2006 estimate		(0.9)
	Subtotal	**(166.1)**
Less Lottery estimate		(72.0)
Revised Local Fund Revenue Budget in A-4 of CAFR		**4,472.1**

In response to the additional revenue, and with continued growth in revenues, elected leaders responded with a number of tax reductions and expenditures. Residential property tax rates were reduced from 96 cents per $100 of assessed value to 92 cents, and the property tax cap was lowered from 12 percent to 10 percent (the residential property tax rate will be lowered further to 88 cents per $100 of assessed value in FY 2007). There was an increase in the property tax homestead deduction to $60,000. The standard deduction on personal income tax was increased to $2,500, and the personal exemption was increased to $1,500. Finally, the local Earned Income Tax Credit match was expanded to 35 percent, and earned income tax credit benefits were extended to non-custodial parents. The effect of these tax reductions and rollbacks will be to save taxpayers more than $90 million in taxes in FY 2006, growing to almost $125 million in FY 2009.

Additional certified revenues also triggered about $7.5 million in additional expenditures for FY 2006. Among the triggered expenditures were $2 million for the Child and Family Services Agency, $0.8 million for Way to Work, $2.3 million for the Department of Youth and Rehabilitative Services, and $2.4 million for the Department of Corrections.

General Fund and Fund Balance

The general fund results reflect the favorable local fund results, as well as all other revenues and expenditures (see Attachments 2 and 3). Total general fund revenue was $5.6 billion in FY 2006, exceeding revised revenue estimates by $54 million or 1.0 percent. General fund expenditures were $236 million (4.3 percent) lower than budgeted, with $149 million attributable to other expenditures.

As presented in the FY 2006 CAFR, the District ended the year with a general fund balance of $1.4 billion (see Attachment 1). This means that since the beginning of FY 1997, when the general fund balance was a negative $518 million, the District's general fund balance has increased by nearly $2 billion, an average of almost $200 million per year. This fund balance clearly indicates the healthy financial position of the District.

However, it is important that we truly understand the components of the fund balance (see Attachment 4). The principal components are $262 million for bond debt service, $294 million for the congressionally-mandated emergency and contingency cash reserves, and $122 million in other reserves mandated by accounting rules. These three categories – reserves mandated by accounting rules, congressional requirements and our bond covenants – together make up about 47 percent of the fund balance.

The remaining 53 percent of the fund balance is controllable by the Mayor and Council. This includes $618 million that has been reserved or designated for subsequent years' expenditures, restricted uses (like the Housing Production Trust Fund), paygo capital spending, and a reserve for retiree health benefits (see Attachment 5). The remaining $138 million is unreserved and undesignated. This amount, together with the congressionally mandated cash reserves of $294 million, represent a cushion of about one month's spending for the District, which is considered prudent financial management to be held in reserve. Indeed, according to the Government Finance Officers Association, "best practices" recommend that municipal governments maintain a cushion equivalent to one to two months expenditures.

Bond Ratings

At the beginning of 1997, the ratings the District received from the three major bond rating agencies were B, Ba and BB. These were below investment grade, or "junk bond", ratings. Today, for many reasons, not the least of which is our healthy reserves, the ratings are A+, A2 and A (Standard and Poor's, Moody's, and Fitch, respectively), and as I said earlier, Moody's and Fitch carry a "positive" outlook on the District, which suggests that they may increase the ratings. These improved ratings help reduce the District's borrowing costs. We estimate that the effect of the many upgrades we have achieved since the District dropped below investment grade in 1995 is an annual savings of more than $15 million in debt service and fees. These upgrades will also benefit future bond issues. For example, if the District were to issue $300 million in general obligation bonds, the savings in debt service alone are estimated at more than $1 million annually over the life of the bonds.

Cash Reserves

Credit rating agencies cite the District's emergency/contingency cash reserves as a positive factor in their analysis and decision to upgrade the District's ratings (see Attachments 6 and 7). The District currently holds $294 million in these cash reserves. As you can see from Attachment 6, these reserves, along with the undesignated and unreserved fund balance, provide a reasonable cushion to protect the fiscal position of the District and distinguish it among other major cities and states.

FINANCIAL MANAGEMENT IMPROVEMENTS

Yellow Book Report

The District continues to seek ways to improve financial management. A clear indication of this can be found in the independent auditors report on compliance and on internal control over financial reporting. This document, commonly called the “yellow book” report, lists one material weakness and one reportable condition. Material weaknesses and, to a lesser degree, reportable conditions are significant deficiencies in the design or operation of internal control over financial reporting. For fiscal years 2004 and 2005, the District’s auditors cited no material weaknesses. In fiscal year 2006, however, the District was reported to have a material weakness in the District of Columbia Public Schools (DCPS), the more significant category of deficiency. The reportable condition was in the management of the Medicaid program.

Although this is a great improvement over past yellow book reports (see table below), it is imperative that we correct the problems cited by the auditors. While part of the reason for these findings is attributable to changes in the standards used by all auditing firms, most of the responsibility lies with the District government, and it is up to us collectively to see that the problems are corrected. I am very concerned that failure to correct these problems promptly could lead to more serious measures in next year’s CAFR.

YELLOW BOOK FINDINGS FY 2001 - FY 2006

	Material Weaknesses	Reportable Conditions
FY 2001	DCPS Accounting & Fin Reporting UDC Accounting & Fin Reporting Medicaid Provider Accounting	Cash/Bank Reconciliation Human Resource/Payroll Process Mgmt Accounting - Non-Routine Transactions Monitoring of Exp Against Open Procurements Disability Comp Claims Mgmt Reporting of Budgetary Revisions
FY 2002	Health Care Safety Net Contract Mgmt Medicaid Provider Accounting	Human Resource/Payroll Process Mgmt Monitoring of Exp Against Open Procurements Disability Comp Claims Mgmt
FY 2003	Health Care Safety Net Contract Mgmt Medicaid Provider Accounting	Human Resource/Payroll Process Mgmt Unemployment Comp Claimant File Mgmt

FY 2004	**NONE**	Unemployment Comp Claimant File Mgmt Management of Disability Comp Program
FY 2005	**NONE**	Management of Disability Comp Program Management of Unemployment Comp Trust Fund
FY 2006	District of Columbia Public Schools	Management of the Medicaid Program

The District has faced problems of this nature in the past, and we have taken steps to rectify the problems. By way of example, the most pressing problem we encountered in the FY 2005 CAFR closing process was the reportable condition regarding disability compensation. This was an issue that needed immediate resolution or the condition would have resulted in a more serious problem this year (e.g., a material weakness). The urgency of this matter was clearly communicated to the city administrator. I directed the Office of Financial Operations and Systems and the Associate Chief Financial Officer for Government Operations to commit resources to the Office of Risk Management (ORM) necessary to remediate the problem. A detailed action plan with a timeline was developed. The action plan was reviewed and endorsed by the external auditors. We constantly monitored the execution of the plan and worked hand-in-hand with ORM. The result – the finding has been reduced to an advisory comment by the auditor, and we will continue to work with ORM to make further improvements.

The DCPS material weakness relates to grants management, human resource/ payroll issues, procurement practices, and the Medicaid program. So what is our plan of action? I want to be clear that I have taken no position on the issue of governance of the schools in the District. That is a policy question that is up to the Mayor and Council to decide. However, it is up to me, as the independent CFO, to ensure that the fiscal soundness of the District is protected. To fail to do so could have consequences for all of the District government, including the loss of our favorable bond ratings and our credibility on Wall Street.

Accordingly, I have directed my Office of Integrity and Oversight (OIO) to begin immediately to work closely with DCPS and develop a detailed plan of action, coordinate with the auditors to ensure their approval of the plan, and monitor the plan as it is executed by DCPS. In fact, OIO has already performed this sort of function. OIO manages the single audit of the District's federal grants and, in that capacity, has issued management alerts and provided guidance to managers – including DCPS – whose programs have been cited by the auditor for material noncompliance.

Budget Execution

A major factor contributing to the District's favorable bond ratings (A+ by S&P, A2 by Moody's and A by Fitch) is our continuing ability to effectively manage the operating budget. In FY 2006, the OCFO aggressively monitored agencies' budgets and brought action items, including reprogramming and funding requests, before the Council in a timely manner to address $177.5 million in policy initiatives and spending pressures.

Debt Burden

We still face challenges in catching up from many years of neglect or inability to fund capital improvements. It is very tempting to address these substantial needs through additional borrowing. The District already has the highest per capita debt of any large city in the nation. Compared to the District's $9,000 per capita for all tax supported debt, New York City's is less than $6,000, Chicago's is $1,800, Boston's is $1,500, and Baltimore's is $800. What is also important to keep in mind is keeping the percentage of our budget that goes to pay debt service at a manageable level. Our debt service is now around 9 percent of expenditures, but with currently planned amounts of future borrowing, that will rise to nearly 13 percent by FY 2010, which is above the Moody's median for large cities. The District has made extraordinary improvements in its fiscal position, and we should not lose the ground we have gained by taking the easy way of funding capital projects by burdening future taxpayers with a heavy debt service load. (See Attachments 8 and 9.)

Continuing Financial Stability

In summary, I continue to believe the District has the ability to sustain all that it has accomplished in the past nine years (see Attachment 10). In many respects I see a very bright future. The city's elected leadership possesses a steadfast commitment to fiscal responsibility that is becoming widely recognized, most notably in the financial markets where the District is enjoying its highest bond ratings in more than a decade.

Structural Imbalance

There are major challenges. Even with the District's strong financial position, we still struggle with the structural imbalances that were enumerated by the General Accounting Office in 2003 – between $470 million and $1.143 billion per year. Unlike many of the other problems that the District has faced and resolved in recent years, this is a problem that the District cannot solve on its own. Our unique position as a city, county and school district with no "parent" state to assist with funding capital needs leaves us with only the federal government to look to for assistance. Indeed, the District must receive assistance from the federal government.

The District has proven that it has the resources and ability to manage its service delivery responsibilities. It is in the area of maintaining the capital infrastructure of the District that the assistance is needed. The District cannot "borrow" its way out of this problem. Much of our property and much of the income earned in the District cannot be taxed, leaving our residents with one of the highest tax burdens in the nation. We cannot tax the income of workers who commute into the District, who account for two-thirds of the income earned within the District. Also, a disproportionate amount of real property within the District is owned by tax exempt entities, including government, educational and religious institutions and not-for-profits. Furthermore, we are unable to tax, in any way, the city's largest employer – the federal government – and of the 10 largest non-governmental employers in the District, not one pays franchise taxes and only one pays property taxes.

This imbalance places an undue burden on the citizens of the District and has resulted in the highest per capita debt burden of any major city in the nation. Assistance from the federal government is the only solution that I can offer at this time. We must continue to call on Congress and the President to recognize the remarkable improvement in fiscal stability and independence that the nation's capital has made in the post-control period, and ask for a reasonable level of financial assistance to resolve the larger infrastructure problem.

CONCLUSION

I want to take this opportunity to thank the many employees, from both the financial and program areas, who worked so long and hard to ensure the successful closure of the District's books and the maintenance of the high-quality records required for an unqualified audit opinion. In particular, I want to commend Tony Pompa, the District's controller; his deputy, Bill Slack; and the rest of the team at the Office of Financial Operations and Systems for their hard work and dedication. I would also like to thank the rest of my senior management team and their staff: Bert Molina, Robert Ebel, Lasana Mack, Sherryl Hobbs Newman, Barbara Jumper, Cyril Byron, Deloras Shepherd, Pamela Graham, Steward Beckham, George Dines, and Ben Lorigo. The District owes them its thanks.

I also want to thank the public accounting firm of BDO Seidman, LLP, who were assisted by Bert Smith and Company and Thompson, Cobb, Bazilio and Associates, for their efforts throughout the audit engagement. Their highly professional staffs worked equally long and hard during the past few months to successfully complete this audit. In particular, I want to commend Wayne Berson, Bill Eisig and Abdool Ahkran for their efforts.

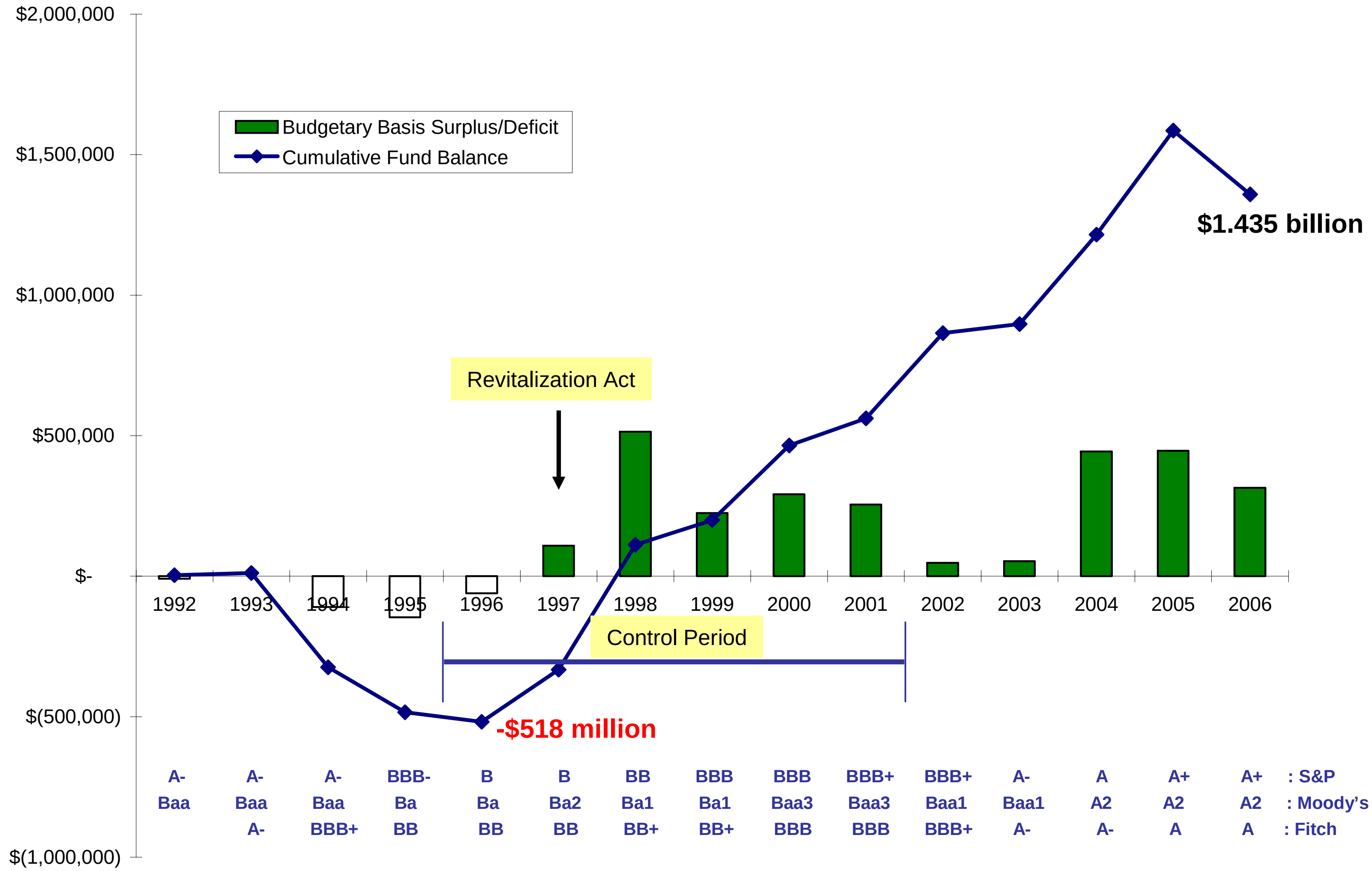
Thanks also go to Inspector General Charles Willoughby and to Bill Divello, the chair of the CAFR oversight committee. Their independent oversight is critical to the integrity of this process.

Let me also extend my deepest thanks to all who helped make this possible, several of whom were a part of the process in a different capacity, including the Mayor; and you, Mr. Gray; as well as City Administrator Tangherlini. Also thanks go to Mr. Evans and the rest of the Council, as well as former Mayor Williams, former

Council Chair Linda Cropp, and former City Administrator Robert Bobb for their guidance, support and oversight of the process during the past few months. Their leadership and commitment to fiscal prudence was an essential part of this successful endeavor.

This concludes my remarks. I would be pleased to answer any questions you may have.

Surplus and Bond Rating History



																Outlook
A-	A-	A-	BBB-	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A	A+	A+	: S&P	Stable
Baa	Baa	Baa	Ba	Ba	Ba2	Ba1	Ba1	Baa3	Baa3	Baa1	Baa1	A2	A2	A2	: Moody's	Positive
	A-	BBB+	BB	BB	BB	BB+	BB+	BBB	BBB	BBB+	A-	A-	A	A	: Fitch	Positive

ATTACHMENT 1

FY 2006 Local Fund Surplus

($ in millions)

	Revised Budget	**Actual**	Actual vs. Revised	Percent Variance
Revenues				
Taxes	$4,156.9	**$4,239.0**	$82.1	2.0%
Non Taxes	$315.2	**$361.9**	$46.7	14.8%
Fund Balance Release	$504.4	**$504.4**	$0.0	0.0%
All Other General Fund Sources	$112.0	**$84.3**	($27.7)	-24.7%
TOTAL	$5,088.5	**$5,189.6**	$101.1	2.0%
Expenditures				
FY 2006	$4,984.6	**$4,897.6**	($87.0)	-1.7%
FY 2007 Advance to Public Education	$69.0	**$69.0**		
Revenues vs. Expenditures	$34.9	**$223.0**		

ATTACHMENT 2

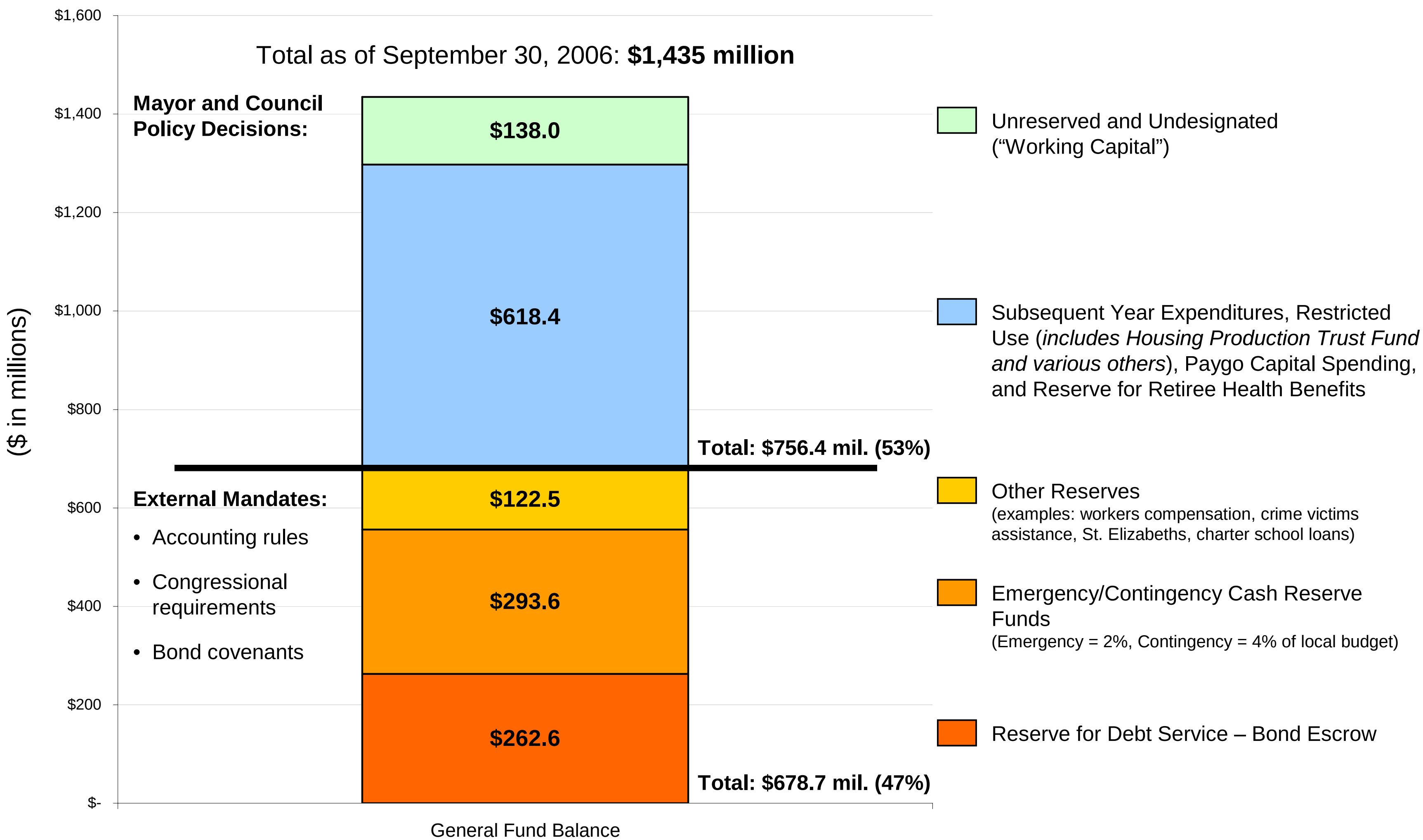
FY 2006 General Fund Surplus

($ in millions)

	Revised Budget	**Actual**	Actual vs. Revised	Percent Variance
Revenues				
Taxes	$4,156.9	**$4,239.0**	$82.1	2.0%
Non Taxes	$737.6	**$737.3**	($0.3)	0.0%
Fund Balance Release	$528.4	**$528.4**	$0.0	0.0%
All Other General Fund Sources	$112.0	**$84.3**	($27.7)	-24.7%
TOTAL	$5,534.9	**$5,589.0**	$54.1	1.0%
Expenditures				
FY 2006	$5,431.0	**$5,194.8**	($236.2)	-4.3%
FY 2007 Advance to Public Education	$69.0	**$69.0**		
Revenues vs. Expenditures	$34.9	**$325.2**		

ATTACHMENT 3

FY 2006 General Fund Balance



ATTACHMENT 4

FY 2006 Comprehensive Annual Financial Report

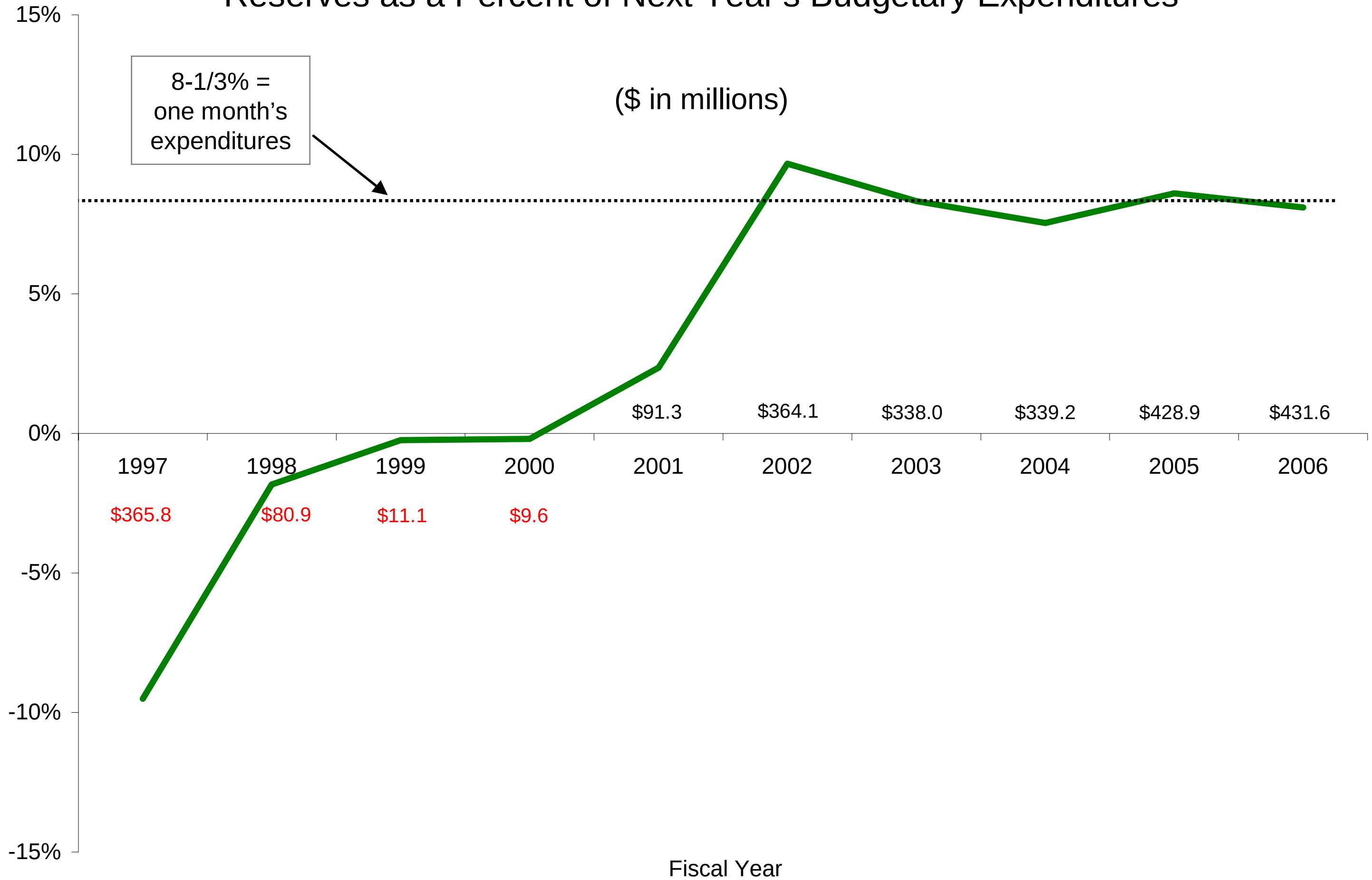
Explanation of General Fund Balance Chart (bottom up):		Amount shown on chart
EXTERNAL MANDATES		
Reserve for Debt Service -- Bond Escrow		**262,640**
Emergency/Contingency cash reserve funds		**293,649**
Other reserves:		
Long term assets:		
State Educaton	4,972	
Home Purchase Assistance Program (HPAP)	3,110	
Other	95	
Total Long term assets	8,177	
Inventory	9,640	
Budget:		
Disability compensation fund	4,983	
Commercial revitalization tax rebate	4,952	
Total Budget	9,935	
Purpose restrictions:		
Workers compensation Special Fund	21,243	
Crime Victims Assistance Fund	13,203	
Charter School Credit Enhancement	10,371	
Storm water	8,414	
Unemployment Administrative Assessment	5,877	
Pepco	3,760	
13 other items less than $2 million	15,034	
Total Purpose restrictions	77,902	
Capital lease payment--reserved for payment of St. Elizabeths lease	16,822	
Total Other reserves		**122,476**
TOTAL EXTERNAL MANDATES ($ AND %)		**678,765** 47%

POLICY DECISIONS		
Reserved for retiree health benefits (OPEB)		
Reserved	5,000	
Unreserved, designated	41,473	
Total reserved for retiree health benefits:		**46,473**
Restricted Use:		
Home Purchase Assistance Program (HPAP) Repayment	19,021	
Neighborhood Investment Fund	17,095	
DDOT Operating Fund	8,936	
Nuisance Abatement	8,411	
Health Care Safety Net revolving fund	8,405	
Motor Vehicle Inspection and others	6,693	
Cable Franchise Fees	5,191	
Master License Fee	4,896	
Import and Class License Fees	4,097	
Low Income Housing Tax Credit	3,428	
36 other items less than $3 million	50,147	
Total Restricted Use		**136,320**

Reserved for Paygo Capital:		
WMATA bus/rail rehabilitation	48,700	
AWC	16,000	
Arena Stage	10,000	
Corcoran Gallery	6,787	
Bryant Street garage in DPW	6,500	
Total reserved for Paygo capital:		**87,987**
Subsequent Years expenditure:		
One-time expenditures:		
Enhanced tax compliance efforts for add'l revenues	7,757	
AWC-Ongoing to One-Time Shift	5,000	
Hold Harmless provision for DCPS	4,965	
Barracks Row Theater acquisition	2,500	
Low Income Home Energy Assistance Program	2,500	
Furniture, fixtures, equipment for libraries	2,000	
Library collections -- print and non-print	2,000	
Washington Convention and Tourism Corp.	1,600	
DOH sep-up cost for Free Clinic Insurance	1,250	
Baseball Academy	1,000	
Washington Ballet	1,000	
Washington Performing Arts Society	1,000	
30 other one-time expenditures less than $1 million	9,294	
Total one-time expenditures		41,866
Amt. needed to balance budget as result of use of Sales tax for School Modernization:		46,477
Total Subsequent years expenditure		**88,343**
Budget:		
Medicaid reserve	27,637	
Workforce investment	4,000	
Revenue shortfall	3,362	
APRA Choice in Drug Treatment	1,064	
Other	5,672	
Total Budget		**41,735**
Purpose restrictions:		
Housing Production Trust Fund	124,413	
Nursing Facility Quality of care	9,107	
Recorder of Deeds Surcharge	5,210	
Total purpose restrictions		**138,730**
Charter school enrollment--start-up costs for new charter shools or for increased enrollment after budget is enacted		**5,000**
Amount needed to balance FY 08 and FY 09 budgets as a result of use of Sales Tax revenue for School Modernization		**73,784**
Total policy decisions reserved or designated:		**618,372**
Unreserved and undesignated		**138,005**
TOTAL POLICY DECISIONS ($ AND %)		**756,377** 53%
TOTAL FUND BALANCES		**1,435,142**

Total Working Capital

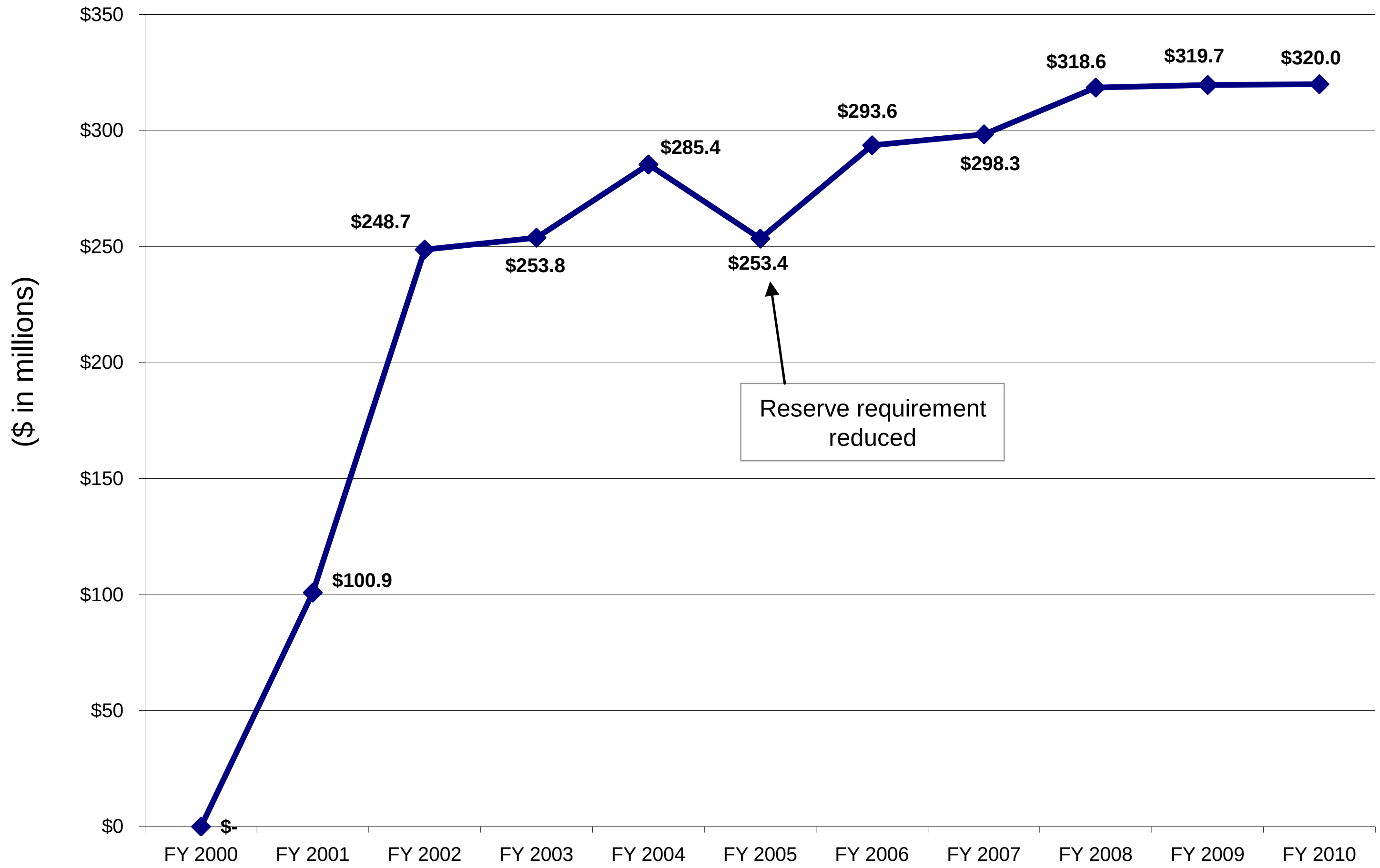
Unreserved/Undesignated Fund Balance Plus Congressionally Mandated Emergency/Contingency Reserves as a Percent of Next Year's Budgetary Expenditures



ATTACHMENT 6

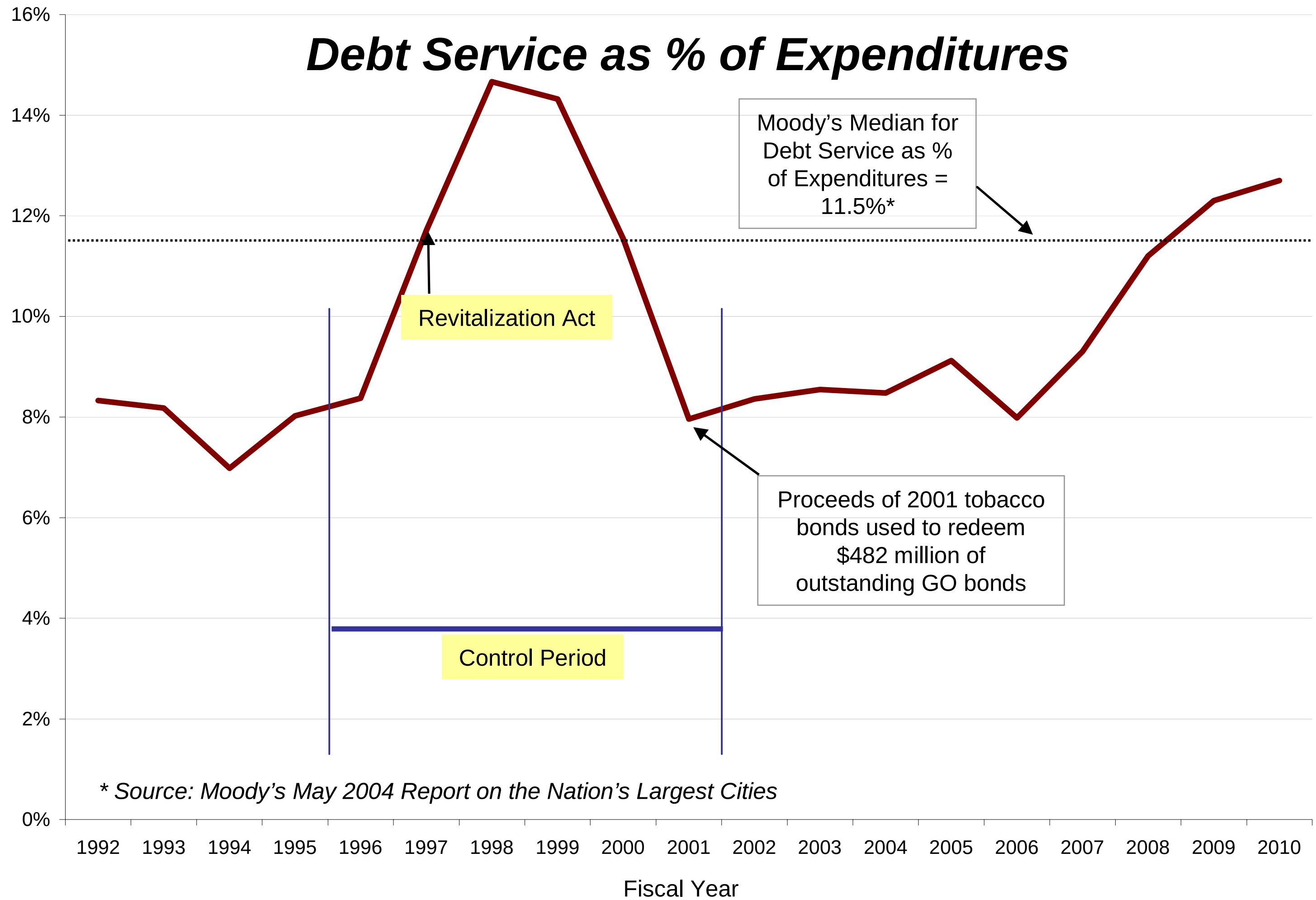
Rainy Day Fund

Congressionally Mandated Emergency (2%)/Contingency (4%) Cash Reserves



ATTACHMENT 7

Growing Debt Burden



ATTACHMENT 8

Capital Needs

The District's capital plans include debt issuances for the following needs:

Project	Amount to be Borrowed ($ in millions)	Dedicated Funding (if any)	Schedule
Annual			
Capital Improvements Plan for General Governmental Projects and Deficit Reduction	**$450**		Annually beginning FY 2007
Periodic			
Various Tax Increment Financing (TIF) Projects	$150 *		FY 2007-2010
Housing Production Trust Fund (HPTF) Financing	$150	HPTF revenues	First $40 million in FY 2007
Government Centers Project	$200		FY 2007
Great Streets	$64	Bus shelter revenue	FY 2007
Convention Center Headquarters Hotel and Convention Center Expansion	$254		FY 2007 or 2008
Schools Modernization	$150		Late FY 2007 or 2008
Department of Transportation Projects	$200	Parking tax revenues	FY 2008
Consolidated Laboratory Facility	$150		FY 2008-2009
Total Periodic	**$1,318**		

** Excludes community benefits and other authorized but unissued TIFs.*

ATTACHMENT 9

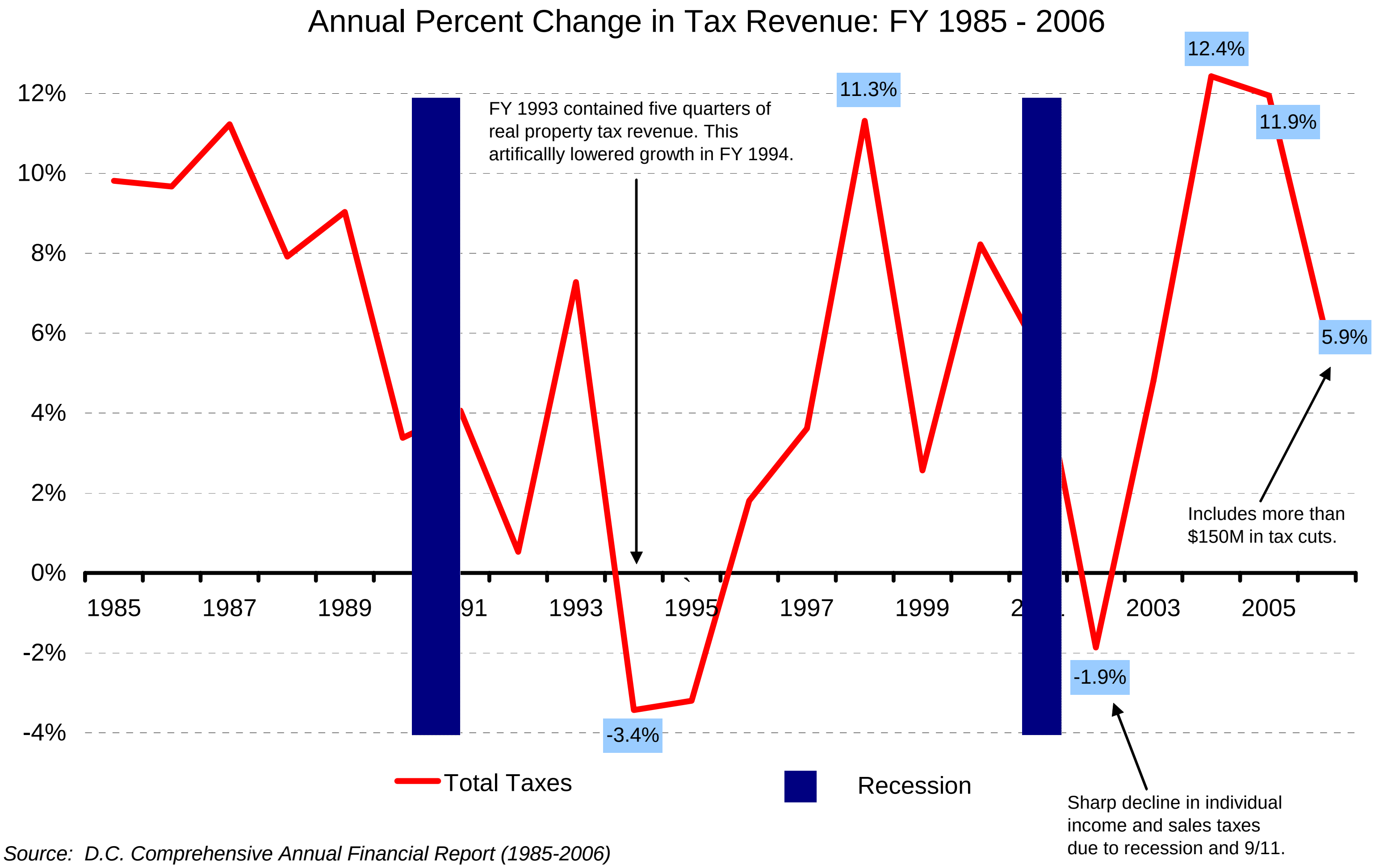
General Fund Financial Plan

(Budgetary Basis, $ in millions)

		FY 2006 Actual	FY 2007 Approved	FY 2008 Projected	FY 2009 Projected	FY 2010 Projected
	Revenues					
1	**Total Resources**	5,589	5,565	5,646	5,859	6,142
	Program Expenditures					
2	General Program Expenditures	4,861	5,300	5,444	5,645	5,875
3	Cash Reserve (Budgeted Contingency)	-	50	50	50	50
4	Paygo Capital	265	88	-	-	-
5	Contribution to Capital Fund Balance	-	-	-	-	-
6	Transfer to Post Employment Benefits	138	5	81	86	92
	Transfer to Housing Production Trust Fund	-	120	69	76	83
7	**Total General Fund Expenditures**	5,264	5,563	5,644	5,856	6,100
8	**Operating Margin, Budget Basis**	**325**	**2**	**2**	**3**	**42**

ATTACHMENT 10

Volatile Tax Revenues



Source: D.C. Comprehensive Annual Financial Report (1985-2006)

ATTACHMENT 11