HEARING ON

THE MAYOR'S FY 2009
PROPOSED BUDGET AND FINANCIAL PLAN

Before the
Subcommittee on Financial Services and General Government
Committee on Appropriations
U.S. House of Representatives

The Honorable José Serrano, Chairman

April 30, 2008; 2:30 p.m.
2359 Rayburn House Office Building

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

Good afternoon, Chairman Serrano and members of the subcommittee. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia, and I am here to offer brief remarks about the fiscal year 2009 proposed budget and financial plan for the District.

This has been an exceptionally challenging budgeting and planning cycle. Unlike past years in which revenue re-estimates have provided higher revenue projections that could be included in the proposed budget, this year has been very different. This February, our revenue projections indicated a <u>decline</u> from the December revenue estimates of $62.5 million for Fiscal Year 2009. For Mayor Fenty's second budget since being sworn in as Mayor last year, the greatest challenge was to control spending in light of the drop in projected revenue, which resulted in revenues insufficient to support agencies' current funding levels. The resulting proposed budget is, for the 13th consecutive year, a balanced budget. Since the budget was submitted on March 20, the Council under Chairman Gray has already been hard at work. We will continue to work diligently with everyone in this collaborative process.

Our strong financial standing as evidenced by the FY 2007 Comprehensive Annual Financial Report ("CAFR") results, which showed a $281 million budgetary surplus, is testimony to the steadfast commitment of the District's elected leaders to sound fiscal management. This steadfast commitment has resulted in a nearly $2 billion turnaround in the cumulative General Fund balance since 1996, from a $518 million deficit to a $1.5 billion positive balance. (See Attachment A) It is important to note that of that $2 billion increase in 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 that is still among the highest in the nation – a far cry from a decade ago – substantially improved bond ratings, including upgrades in FY 2007 from both Moody's Investors Service and Fitch Ratings, and a well-deserved respect in the financial markets. The charts in Attachments B and C show the components of the General Fund Balance and the history of our Congressionally mandated rainy day funds.

It is important to note here that bond rating analysts have stated that economic downturns are the true test of financial management. This balanced budget is testimony to the commitment our elected leaders have to demonstrating that the District can manage effectively in both good times, and bad.

In my testimony that follows, I will first summarize the fiscal recovery over the past decade and discuss only the highlights of the FY 2009 Budget Request and the 5-year plan. I will also address our capital spending needs and the challenge of addressing the District's comparatively high spending needs with a restricted tax base. Finally, I will address our ongoing commitment to fiscal balance and excellent financial management.

Revenue Outlook

This time last year, the economic outlook for the District of Columbia was similar to that generally forecast for the nation as a whole; no major disruptions and steady growth in employment, wages and income, but at rates slightly below those experienced in FY 2006.

Indeed, much of that positive forecast was realized in 2007 as the District's economy showed considerable strength. Employment in D.C. grew by 6,300 (0.9 percent) and resident employment increased by 7,000 (2.3 percent).[1] The Census Bureau also reported that the District's July 2007 population of 588,292 was 2,833 (0.5 percent) more than a year earlier, the 4th year in a row of comparable population growth.[2]

However, the real property market changed in FY 2007. On the residential side, sales of single family houses declined by 9.4 percent while average sale prices rose by 7 percent. Condominium sales increased by 4.9 percent, by contrast, but average prices fell by 3.0 percent. All told, in FY 2007 the combined value of sales of both single family and condominium units declined by 1.2 percent.[3] In FY 2007 the amount of commercial office space increased by 4.0 percent and the vacancy rate declined — from 6.2 percent in FY 2006 to 5.8 percent in FY 2007.[4] The District's deed transaction records show that the value of all real property that changed hands increased by 10.5 percent in FY 2007.[5] This year, the outlook for the period covered by the FY 2009 – FY 2012 Proposed Budget and Financial Plan is far less positive. It reflects the downturn in the national economy, and the far-reaching effects of the troubled mortgage and housing markets.

[1] U.S. Bureau of Labor Statistics, employment and labor force data as of March 2008.
[2] U.S. Bureau of the Census population estimate for the District of Columbia and all States as of July 1, 2007.
[3] Sales data for single family and condominium units are from the Metropolitan Regional Information System (MRIS), accessed through the Greater Capital Area Association of Realtors (GCAAR).
[4] Delta Associates, December 2007.
[5] Office of Tax and Revenue, calculated from collections of the Deed Transfer Tax and the Economic Interest Tax.

The February 2008 revenue estimates illustrate the nature of this uncertainty. In just the past three months, the national and the District of Columbia economy have slowed down. Indeed, some financial observers including Federal Reserve Chairman Bernanke are concerned about a possible recession in the near term. We have observed the slowing in District home sales activity as well as the stock market and the overall pace of economic activity. This slow down, in combination with recent legislative changes, has resulted in an estimate of total revenues less than we expected as of last December. Similarly, for our May revenue estimate we are closely monitoring April tax collections and the evolving economic picture for any signs that the revenues are growing even more slowly. The District's unique mix of revenue sources and the resulting volatility calls for realistically conservative revenue estimates to ensure a balanced budget throughout each fiscal year. (See Attachment D.)

Highlights of FY 2009 Proposed Budget & FY 2009-FY2012 Financial Plan

The Mayor's FY 2009 proposed budget includes $5.659 billion in local-funds spending supported by $5.663 billion of local revenues, with an operating margin of $3.5 million. The details of our Local and Gross Budgets are provided in Attachments E and F.

The FY 2009 – FY 2012 Financial Plan appears as Attachment G. Each of the four years is balanced. Tax revenues are projected to increase an average 5.3 percent per year, total local fund recurring revenues an average 5.0 percent, and recurring local operating expenditures an average 3.5 percent.

Capital Spending, Contemplated Borrowing, and Debt Burden

The District faces a wide variety of infrastructure needs, placing great demands on its Capital Improvements Plan (CIP) and the resultant borrowing. Attachment H provides details of infrastructure spending and funding sources, including general obligation debt. The total proposed appropriation request for the FY 2009 - FY 2014 CIP is $607 million for all sources (excluding the Highway Trust Fund), which consists of $2.180 billion of new budget authority offset by $1.574 billion of rescissions.

It is difficult to compare the District of Columbia to other jurisdictions because it is responsible for the multiple functions that normally are associated with those of a city, a county, a school district and a state. Using a ratio of total tax supported debt to population, the District is dramatically out of step with other large cities. Compared to the District's $10,000 per capita for all tax supported debt, New York City's is less than $7,000, Chicago's is $4,400, Boston's is $1,800 and Baltimore's is $1,200.

From the broader viewpoint – that D.C., unlike a Baltimore, Boston, Chicago or New York, functions as a city, a county, a school district and a state. However, it is valid to weigh more heavily the use of a ratio of debt service to expenditures as the measure for judging debt burden.

Our debt service at the beginning of the current fiscal year was around 9.1 percent of expenditures, and with currently planned amounts of future borrowing, that percentage is projected to rise to 12.1 percent by the end of FY 2010, just above the firm cap of 12 percent recommended by the OCFO and above the Moody's median of 11.5 percent for large cities. (See Attachment I.) This leads to the broader issue of the challenge of addressing the District's comparatively high spending needs with a restricted tax base.

High Needs and Restricted Tax Base

The District, as the urban center of a large metropolitan area, houses a disproportionately large share of very poor and needy people. The District's overall poverty rate of 19 percent and child poverty rate of 33 percent are among the highest in the nation and more than three times the comparable rates across neighboring counties.[6] Unlike other urban jurisdictions, the District cannot pool resources across the wealthier suburban areas from the same state to serve its urban poor.

Higher costs of service delivery further threaten the District's fiscal health. Labor costs for public services in the District are 123 percent of the national levels, and capital costs (primarily buildings) are 1.65 times the national average. Because of this combination of a needy population and high service costs, our expenditure needs are very high. If the District were to offer a basket of public services similar to what is offered across all states and localities in the nation, for each of its residents, it would have had to spend 130 percent more than what other states and localities spend on average.

In this environment of high expenditure needs, the revenue challenge is equally great. Whereas the District has access to a wide range of state and local revenues, it also has, again unlike other central cities, the responsibilities of a state, a municipality, and various special districts (for example, schools).

---

[6] The U.S. averages are 13 percent for poverty and 18 percent for child poverty. The average poverty rate across Arlington, Fairfax, Montgomery and Prince George's counties is 6 poverty. The average child poverty rate is 7 percent.

Now, here is where the U.S. Congress plays an important role. Kindly permit me to briefly note two areas that merit continuous attention. Both go to the unfunded mandates that restrict the District's own taxing power. [7]

- The prohibition on taxing the income earned by non-residents, including those who commute into the city on a daily basis. That 66 percent of the income is earned by non-residents makes the simple point.
- The District has an especially high concentration of non-taxable real property, much of it off the tax rolls due to the presence of the federal establishment. The value of property held by the federal government is 32 percent of [non-residential] property values.

Because of these unfunded Congressional mandates, our residents must shoulder a disproportionate share of the costs of public services, while the benefits generated by the city are shared by a much larger community. Our 13th consecutively balanced budget attests to the fact that we have not allowed these mandates to become an excuse for fiscal irresponsibility. Yet, District residents, through higher taxes, pay for these mandates. The looming danger, given the economic conditions in the nation combined with the District's high expenditure needs is that, should our revenue growth slow down, District services could be severely impaired.

[7] In 2003, the General Accounting Office (now Government Accountability Office) calculated this preemption to be between $470 million and $1.1 billion annually. (GAO, <u>District of Columbia Structural Imbalance and Management Issues</u>, May 2003.)

INTERNAL CONTROLS STRUCTURE

Yellow Book Report

At the time of the release of the District's CAFR, the independent auditors provide a separate report titled "Independent Auditors Report on Compliance and on Internal Control over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards". This document, commonly called the "yellow book" report, lists three material weaknesses and six reportable conditions for Fiscal Year 2007. Material weaknesses and, to a lesser degree, reportable conditions are significant deficiencies in the design or operation of internal control over financial reporting.

Mr. Chairman and Members of the Committee, I want to stress that these findings should in no way diminish the remarkable accomplishments that the District has achieved since the end of the control period. Rather, they should be viewed as an opportunity for all of us in the District to focus on the areas that most need improvement. The findings will be a valuable tool for managers throughout the District to improve financial management. It is imperative that we correct the problems cited by the auditors, and I give you my personal pledge to eliminate or reduce the severity of the findings over the next year.

The table below shows a history of the yellow book findings since FY 2001. Please note that Medicaid and Disability Compensation have appeared in the yellow book in five of the past seven years. Human Resources and Unemployment Compensation have appeared in four of the past seven years, and DCPS has appeared three times in that period.

YELLOW BOOK FINDINGS FY 2001 - FY 2007

	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
FY 2007	Office of Tax and Revenue - Refund Process Management of the Medicaid Program District of Columbia Public Schools	Investment Reconciliations and Activities NCRC and the AWC Management of Grants Compensation Management of Disability Compensation Program Management of Unemployment Comp. Program

I want to address each of the three material weaknesses and summarize steps already taken and planned to remediate the problems outlined. A detailed management response to the auditors' findings is included in the yellow book report, and I am happy to answer questions about those responses.

I. Office of Tax and Revenue – Refund Process

As I testified before the DC Council last month, the Yellow Book finds that the refund process in the Office of Tax and Revenue is a material weakness. This was, of course, the area where the alleged fraud occurred, in manual property tax refunds. Last fall, the tax refund process, specifically manual tax refunds, was identified as an area of particular concern. Since November, we have overhauled that process by establishing and enforcing procedures for preparation and review of refund requests. We have a new head of OTR, Stephen Cordi, who is a highly accomplished professional with an established record of sound tax management. We are also currently reevaluating and strengthening our anti-fraud programs, not just in OTR but throughout the OCFO.

Following the discovery of the alleged fraud in the Office of Tax and Revenue, I established an independent Audit Committee to Review Financial Management and Internal Controls to advise the OCFO on how to swiftly and effectively address the problems that led to the alleged fraud. This group, chaired by Sheldon Cohen, former Commissioner of the U.S. Internal Revenue Service, has provided invaluable advice and direction, and the OCFO is grateful for the time and effort contributed by this group.

Indeed, we have already made great headway in improving the way the OCFO does business, but much remains to be done. The Committee will report quarterly. Attachment J provides details on the Committee's mission and membership. Judge Stanley Sporkin, former U.S. District Judge for the District of Columbia, has also provided his expertise and guidance to the OCFO, for which we are also very grateful.

II. Management of the Medicaid Program

This finding reflects the ongoing problems in the Medicaid program. Indeed, it has been elevated from a reportable condition in the FY 2006 CAFR to a material weakness, an indication that we have not made enough progress in improving this area. While the District no longer has the kind of write-offs we experienced in previous years due to poor billing practices, we still have a way to go. The Inspector General has also publicly pointed out for years the problems in Medicaid administration. The new Department of Health Care Finance, combined with a competent and effective contractor, is key to solving this issue once and for all. Again, it is essential that we make the resources available to correct this situation and remove this from the list of weaknesses.

III. District of Columbia Public Schools (DCPS)

The last material weakness is the DC Public Schools. Following last year's CAFR citing DCPS as a material weakness, we established a team, working with DCPS officials, to remedy the personnel, procurement and Medicaid issues that led to the "material weakness" finding.

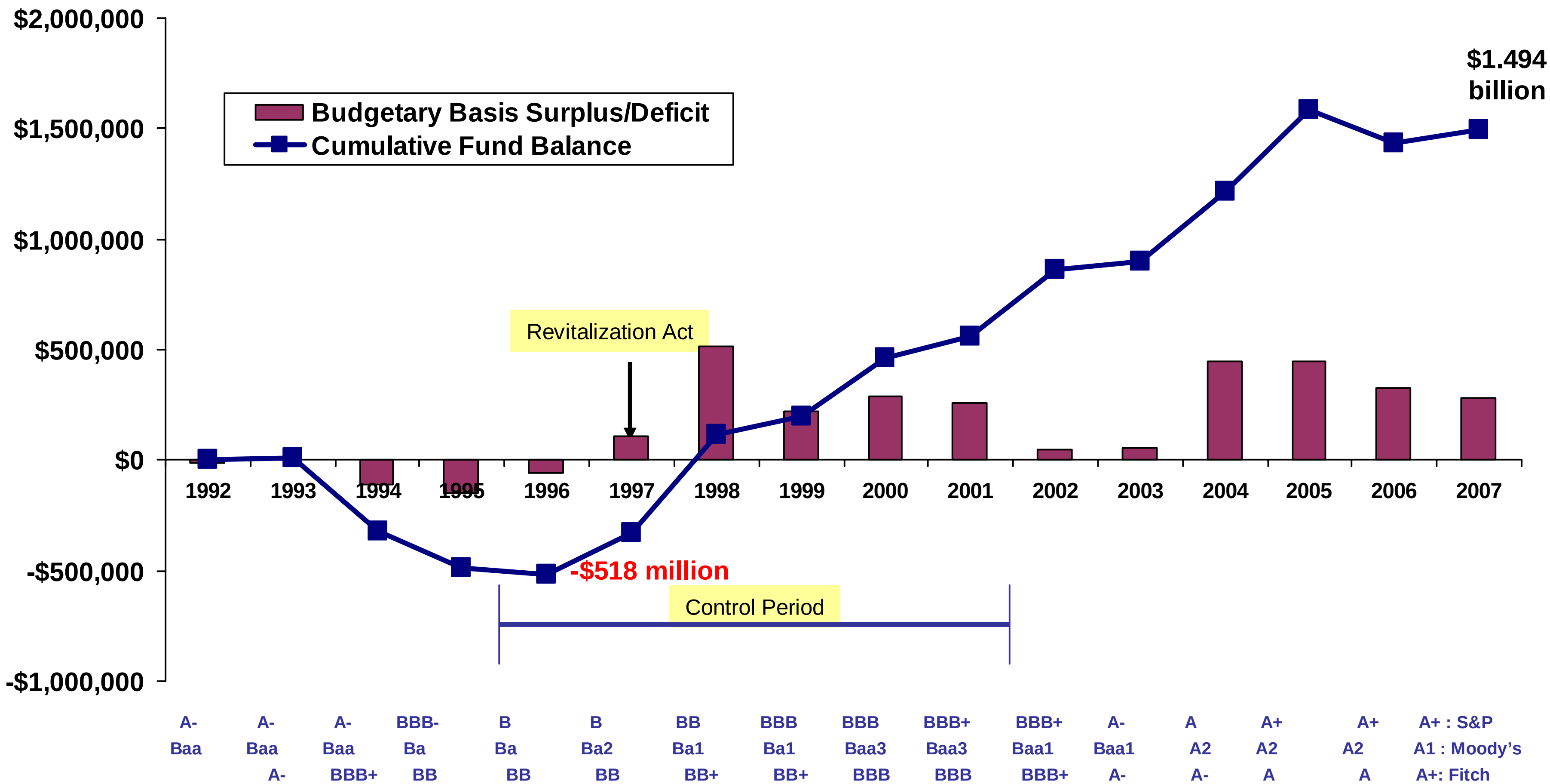
Through the development of policies and procedures, employee training programs and the imaging of documents, significant progress was made to improve the performance in these areas. Indeed, this year's finding reflects that hard work, as the bases for the finding no longer includes the personnel, procurement and Medicaid issues. The District is at a disadvantage, of course, because of the "high-risk" designation by the U.S. Dept of Education that represents the most significant basis for the finding.

Conclusion

Mr. Chairman, I would again like to take this opportunity to stress the particular challenges the District faced in preparing this budget in an environment of declining revenues. The leadership provided by the Mayor and the Council allowed the District to produce this balanced budget proposal for FY 2009. As a result, we certified that the FY 2009 budget and financial plan, as proposed, is balanced for FY 2009 and beyond. I would like to thank you, Mr. Chairman, for your leadership and this committee for its diligent and continuous oversight work on the District's finances during this sustained recovery period. We look forward to continuing to work with you and the subcommittee during the forthcoming budget deliberations.

Attachment A

Surplus and Bond Rating History

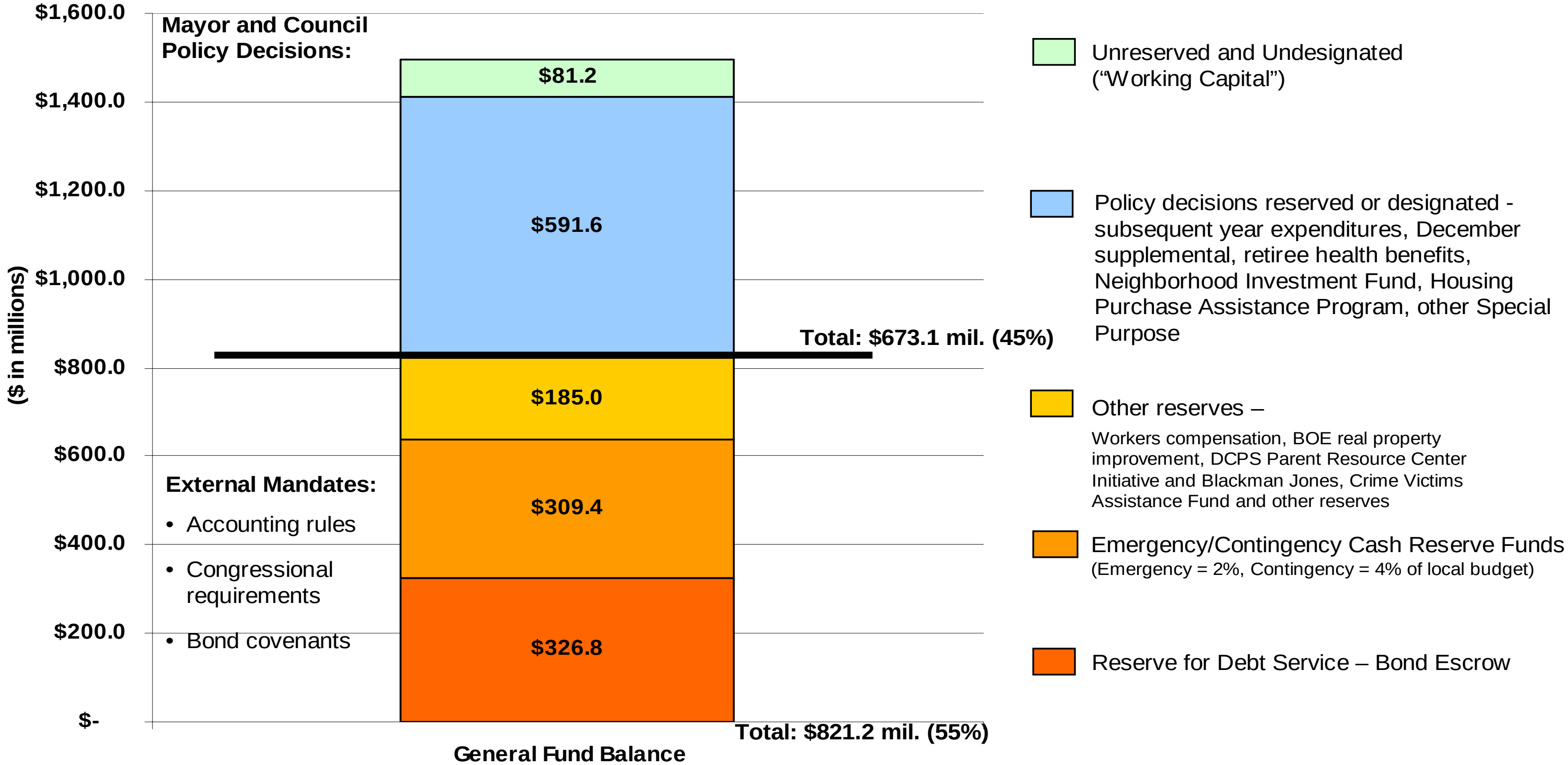


Government of the District of Columbia
Office of the Chief Financial Officer
Natwar M. Gandhi, Chief Financial Officer

Attachment B

FY 2007 General Fund Balance

Total as of September 30, 2007: **$1,494 million***



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

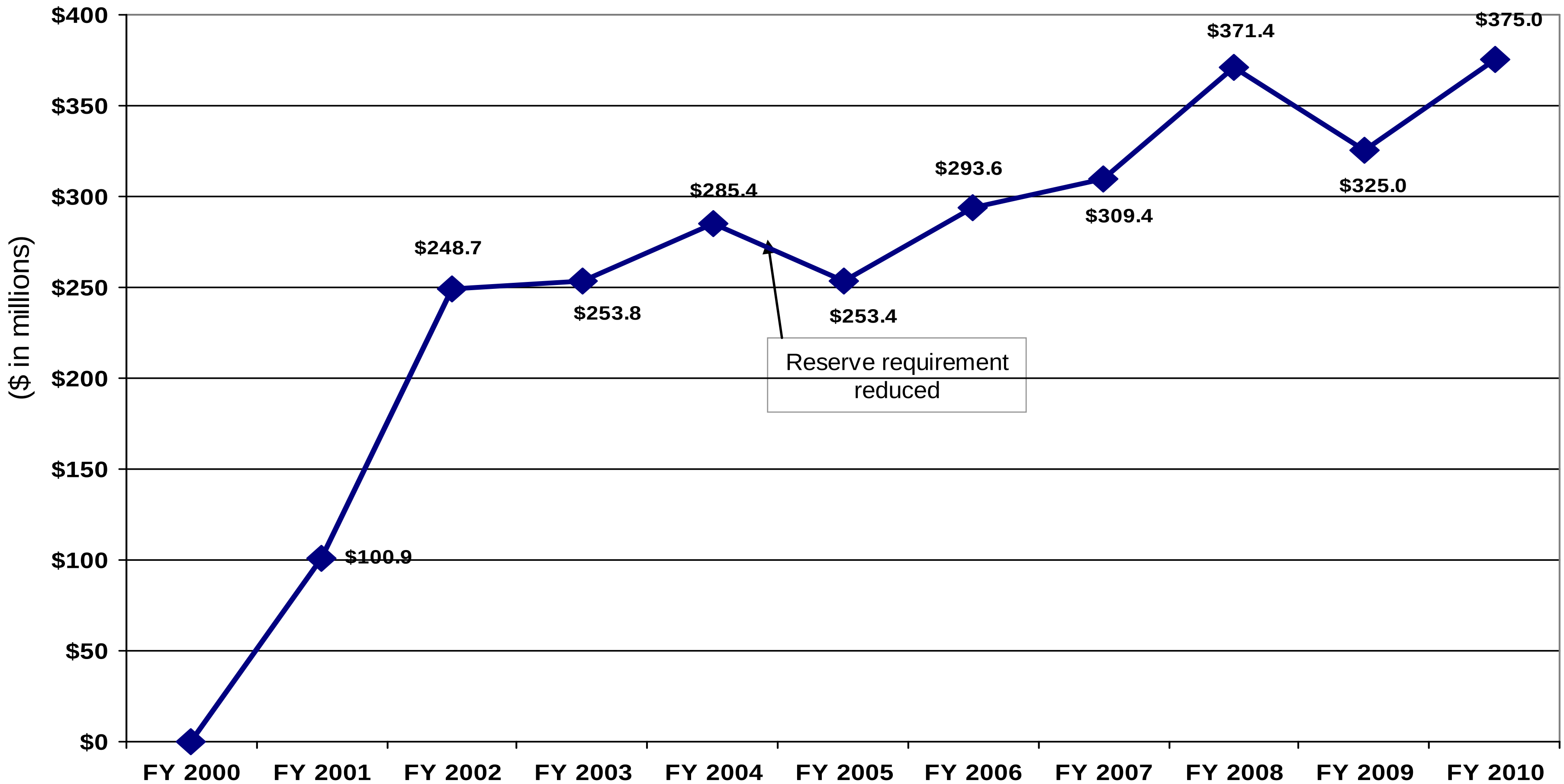
*In addition, as of September 30, 2007 $100 million was in a Separate Revenue Fund for the Housing Production Trust Fund, formerly part of the General Fund

Attachment C

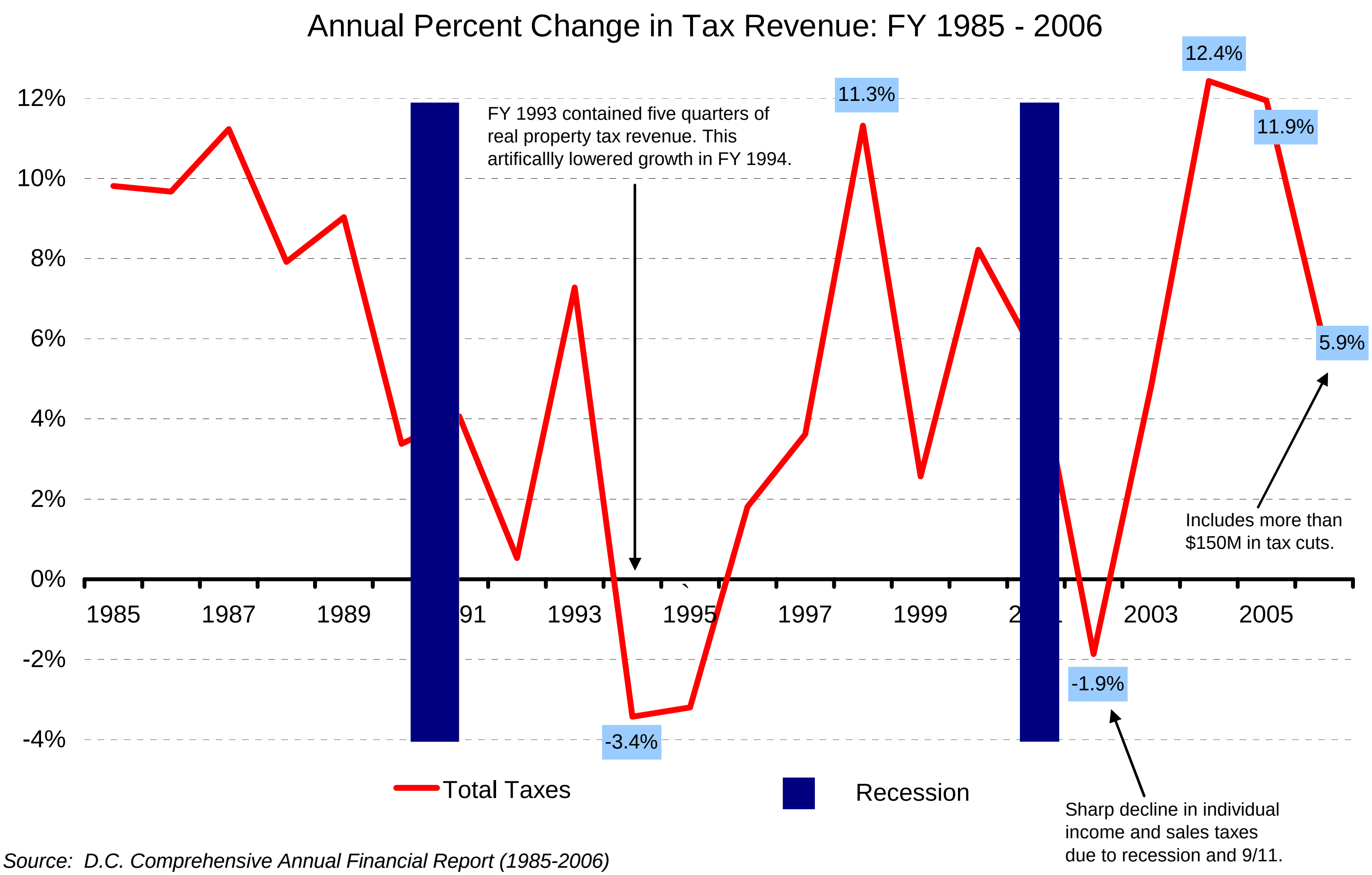
Rainy Day Fund

(FY 2007 Actual, FY 2008-2010 Projected)

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



Volatile Tax Revenues



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

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

Proposed FY 2009 Budget Summary Local Fund

Attachment E

($ in thousands)

	FY 2008 Approved	FY 2009 Proposed	Change	% Change
Total Non Dedicated Taxes	$4,783,509	$5,030,764	$247,255	5.2%
Non-Tax Revenue	326,111	307,844	(18,267)	-5.6%
Transfer from Lottery	72,100	71,000	(1,100)	-1.5%
Sub-total Local Fund Revenues	***$5,181,720***	***$5,409,608***	***$227,888***	***4.4%***
Adjusted revenue for School Modernization	100,000	0	(100,000)	-100.0%
Miscellaneous Revenue (including revenue proposals)	64,549	159,477	94,928	147.1%
Appropriated Fund Balance	276,139	93,500	(182,639)	-66.1%
Total Local Fund Resources	***$5,622,408***	***$5,662,585***	***$40,177***	**0.7%**
Operating Expenditures	$5,402,890	$5,548,757	$145,867	2.7%
School Modernization Fund	100,000	0	(100,000)	-100.0%
PAYGO Capital and Transfer to OPEB	119,059	110,337	(8,722)	-7.3%
Total Expenditures	***$5,621,949***	***$5,659,094***	***$37,145***	**0.7%**
Proposed Operating Margin	**$459**	**$3,491**	**$3,032**	**660.6%**

FY 2009 Gross Funds Budget by Fund Type
($ in thousands)

Fund Type	FY 2008 Approved	FY 2009 Proposed	Change	% Change
Local	$5,621,948	$5,659,094	$ 37,146	0.66%
Dedicated Taxes	145,893	223,541	77,648	53.22%
Special Purpose	555,814	557,282	1,468	0 26%
Subtotal General Fund	**$6,323,655**	**$6,439,917**	**$116,262**	**1.84%**
Federal	2,068,978	2,228,806	159,828	7 72%
Private Grants	7,875	5,418	(2,457)	-31.20%
Total Gross Funds	**$8,400,508**	**$8,674,141**	**$273,633**	**3.26%**

Attachment G

Table 3-1

FY 2009 - 2012 Proposed Budget and Financial Plan: GENERAL FUND

($ thousands)

		FY 2007 Unaudited Actual	FY 2008 Approved		FY 2008 Adjusted	FY 2009 Proposed	FY 2010 Projected	FY 2011 Projected	FY 2012 Projected
1	**Revenues**								
2	Taxes	4,729,040	4,883,509		4,946,037	5,030,764	5,313,545	5,581,462	5,877,699
3	Dedicated Taxes	58,731	142,052		133,388	229,899	236,314	245,410	255,168
4	General Purpose Non-Tax Revenues	423,875	326,111		326,207	307,844	304,386	309,764	305,247
5	Special Purpose (O-type) Revenues	366,511	357,784		449,620	483,460	479,368	471,706	477,475
6	Transfer from Lottery	65,376	72,100		70,000	71,000	71,000	71,000	71,000
7	**Sub-total General Fund Revenues**	**5,643,533**	**5,781,556**		**5,925,252**	**6,122,967**	**6,404,613**	**6,679,342**	**6,986,589**
8	Bond Proceeds for Issuance Costs	6,335	60,000		60,000	15,000	15,000	15,000	15,000
9	Transfer from Federal and Private Resources	0	6,646		3,497	3,497	3,497	3,497	3,497
10	Transfer from Enterprise Fund (HPTF) for Debt Serivice	0	12,000		12,000	0	0	0	0
11	Transfer from Enterprise Fund Baseball Project	14,871	0		0	0	0	0	0
12	Transfer from Capital Funds (Bus Shelter Revenue) for Debt Svc	0	9,714		9,714	0	0	0	0
13	Transfer In from AWC and NCRC for Economic Development Authority	0	55,646		55,646	0	0	0	0
14	Fund Balance Use	122,412	339,989		473,791	161,682	0	0	0
15	Revenue Proposals	0	59,564	#	0	141,260	150,733	156,114	156,725
16	**Total General Fund Resources**	**5,787,151**	**6,325,115**		**6,539,900**	**6,444,406**	**6,573,843**	**6,853,953**	**7,161,811**
17									
18	**Expenditures (by Appropriation Title)**								
19	Governmental Direction and Support	366,258	387,642		422,092	440,569	420,736	432,855	446,410
20	Economic Development and Regulation	321,892	394,608		497,931	336,766	303,687	306,345	311,429
21	Public Safety and Justice	961,429	1,036,665		1,045,933	1,036,850	1,064,441	1,099,537	1,137,464
22	Public Education System	1,240,676	1,306,621		1,302,331	1,451,708	1,502,340	1,546,438	1,592,765
23	Human Support Services	1,512,702	1,573,805		1,643,157	1,603,301	1,672,933	1,754,428	1,841,790
24	Public Works	429,971	573,070		586,295	612,973	614,910	633,495	656,593
25	Financing and Other	469,184	645,501		664,956	670,093	710,186	691,814	722,575
26	Cash Reserve (Budgeted Contingency)	0	50,000		50,000	0	0	0	0
27	Budgeted Reserve	0	0	#	0	50,000	55,000	60,000	65,000
28	Lease Purchase Costs	21,893	43,755		43,755	51,405	53,138	58,877	51,084
29	**Sub-total, Operating Expenditures**	**5,324,005**	**6,011,667**		**6,256,450**	**6,253,665**	**6,397,371**	**6,583,789**	**6,825,110**
30	School Modernization Fund	0	108,152		68,152	0	0	0	0
31	Paygo Capital	118,861	0		0	29,237	0	0	0
32	Transfer to Trust Fund for Post-Employment Benefits	4,700	110,907		110,907	81,100	86,700	92,700	99,000
33	Transfer to Enterprise Funds - HPTF and Baseball Revenue Fund	58,731	92,930		83,852	75,913	65,059	62,481	64,066
34	**Total General Fund Expenditures and Transfers**	**5,506,297**	**6,323,656**		**6,519,361**	**6,439,915**	**6,549,130**	**6,738,970**	**6,988,176**
35	**Operating Margin, Budget Basis**	**280,854**	**1,459**		**20,539**	**4,491**	**24,713**	**114,983**	**173,635**
36									
37	**Beginning General Fund Balance**	**1,435,142**	**1,494,000**		**1,494,000**	**1,020,748**	**843,557**	**848,270**	**943,253**
38	Operating Margin, Budget Basis	280,854	1,459		20,539	4,491	24,713	114,983	173,635
39	Projected GAAP Adjustments (Net)	(99,584)	(20,000)		(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
40	Deposits into Reserve Funds (From Fund Balance)	0	0		0	0	0	0	0
41	Deposits into Reserve Funds (To Cash Reserves)	0	0		0	0	0	0	0
42	Fund Balance Use	(122,412)	(339,989)		(473,791)	(161,682)	0	0	0
43	**Ending General Fund Balance**	**1,494,000**	**1,135,470**		**1,020,748**	**843,557**	**848,270**	**943,253**	**1,096,888**
44									
45	**Composition of Fund Balance**								
46	Emergency Cash Reserve Balance (2%, formerly 4%)	87,932	100,024		100,024	103,591	125,004	125,004	125,004
47	Contingency Cash Reserve Balance (4%, formerly 3%)	221,451	221,451		221,451	221,451	250,009	250,009	250,009
48	Fund Balance not in Emergency & Contingency Reserves	1,184,617	813,995		699,273	518,515	473,257	568,240	721,875
49	**Ending General Fund Balance (Line 44)**	**1,494,000**	**1,135,470**		**1,020,748**	**843,557**	**848,270**	**943,253**	**1,096,888**
50									
51	**Total cash reserves - operating, emergency & contingency**	**309,383**	**371,475**		**371,475**	**325,042**	**375,013**	**375,013**	**375,013**

FY 2009 - FY 2014 Capital Budget

(Dollars in thousands; excludes Highway Trust and Local Streets Maintenance Funds)

Attachment H

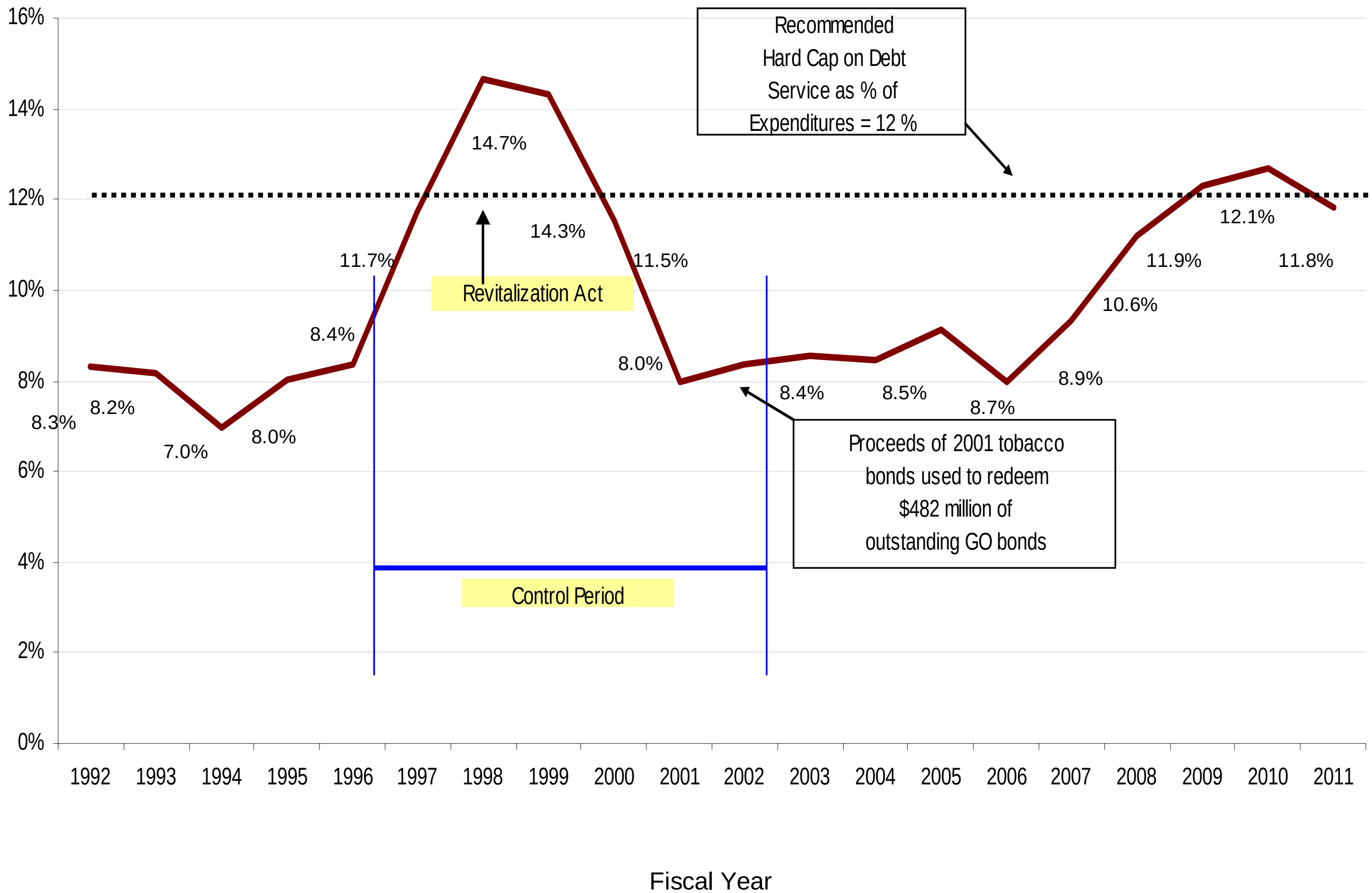
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Total, FY 2009-FY 2014	Percent of FY 2009
Sources:								
G.O. Bonds	399,178	397,189	394,495	396,049	397,408	396,996	**2,381,315**	
PAYGO	100,785	76,873	82,552	92,632	110,671	118,474	**581,986**	
Master Lease	60,822	39,261	33,902	39,685	36,953	30,918	**241,541**	
Sale of Assets	6,000	0	0	0	0	0	**6,000**	
Subtotal, Sources	**566,784**	**513,324**	**510,949**	**528,365**	**545,032**	**546,388**	**3,210,842**	
Additional G.O. Bonds - Large-Scale Financings	150,000	50,000	0	0	0	0	**200,000**	
Total, Sources	**716,784**	**563,324**	**510,949**	**528,365**	**545,032**	**546,388**	**3,410,842**	
Uses:								
District of Columbia Public Schools	193,998	200,948	213,652	231,178	250,111	266,258	**1,356,145**	34.2%
Mass Transit Subsidies	65,500	77,700	83,700	84,800	88,800	91,200	**491,700**	11.6%
Department of Parks and Recreation	55,800	51,500	42,520	41,520	38,520	40,000	**269,860**	9.8%
Department of Mental Health	27,800	5,000	0	0	0	0	**32,800**	4.9%
Fire and Emergency Medical Services	27,714	29,290	26,506	22,376	29,516	17,076	**152,478**	4.9%
Office of Property Management	26,890	25,260	25,260	27,980	38,050	62,620	**206,060**	4.7%
DC Public Library	23,163	22,475	36,600	42,277	26,002	18,662	**169,179**	4.1%
Office of the Chief Technology Officer	16,194	11,649	9,914	14,508	18,077	12,565	**82,907**	2.9%
Department of Public Works	15,920	9,075	8,635	8,800	8,800	7,800	**59,030**	2.8%
Office of the Chief Financial Officer	15,200	6,200	6,200	3,200	0	0	**30,800**	2.7%
Metropolitan Police Department	14,950	10,200	11,558	10,200	10,200	5,200	**62,308**	2.6%
University of the District of Columbia	14,130	8,540	8,015	5,520	4,150	2,700	**43,055**	2.5%
Offcie of the State Superintendent of Education	13,583	8,500	3,000	3,000	0	0	**28,083**	2.4%
Deputy Mayor For Economic Development	12,760	0	0	0	0	0	**12,760**	2.3%
Dept. of Housing and Comm. Development	8,450	7,750	6,550	5,950	10,500	5,000	**44,200**	1.5%
Dept. of Consumer and Regulatory Affairs	7,750	7,750	7,750	7,750	5,000	0	**36,000**	1.4%
Department of Transportation	6,700	9,100	7,700	7,500	7,500	7,500	**46,000**	1.2%
Office of Unified Communications	6,700	7,000	5,000	5,000	5,000	5,000	**33,700**	1.2%
Department of Human Services	4,500	5,500	0	0	0	0	**10,000**	0.8%
Office of Planning	2,706	3,436	2,106	2,106	2,106	2,106	**14,569**	0.5%
Commission on Arts & Humanities	2,500	2,700	2,700	2,700	2,700	2,700	**16,000**	0.4%
Office on Aging	1,950	0	0	0	0	0	**1,950**	0.3%
Department of Health	990	0	0	0	0	0	**990**	0.2%
Department of Corrections	579	3,750	3,582	2,000	0	0	**9,911**	0.1%
Office of Zoning	357	0	0	0	0	0	**357**	0.1%
Subtotal, Uses:	**566,784**	**513,324**	**510,949**	**528,365**	**545,032**	**546,388**	**3,210,842**	**100.0%**
Large-Scale Financings (Office of Property Management):								
Consolidated Laboratory Facility	75,000	50,000	0	0	0	0	**125,000**	
Government Centers	75,000	0	0	0	0	0	**75,000**	
Total, Uses:	**716,784**	**563,324**	**510,949**	**528,365**	**545,032**	**546,388**	**3,410,842**	

Attachment I

Growing Debt Burden

Debt Service as % of Expenditures

(as of September 30 of each fiscal year)



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

Attachment J

AUDIT COMMITTEE APPOINTEES
BRIEF BIOGRAPHIES

Sheldon Cohen, Chairman
The Honorable Sheldon S. Cohen, Esq. is currently a Director at Farr, Miller & Washington, LLP and a professional lecturer at the George Washington Law School. Mr. Cohen retired as a partner in the law firm of Morgan, Lewis & Bockius in 2005. Mr. Cohen served in the Internal Revenue Service on several different occasions. During the period 1952-1956, he served as a legislative draftsperson during the drafting of the 1954 Code and Regulations. In the period from January 1964 through January 1969, Mr. Cohen served as Chief Counsel for one year and then as Commissioner of the Internal Revenue Service for four years. He was the youngest person to ever serve in that position. He has also served as an officer and Trustee of the National Academy of Public Administration and has served as a panel member of several studies dealing with the administrative aspects of the Internal Revenue Service. He served as a consultant to the United Nations Development Program assisting developing countries with tax administration. He is the Chair of the Audit Advisory Committee of the GAO.

Donald H. Chapin
Mr. Chapin has been a consultant on accounting, auditing, and financial management issues from 1997 to date. He is a member of the Audit and Review Committee of the Smithsonian. He has advised the New York City District Attorney on Tyco related auditing issues and law firms on Enron related accounting issues, auditor independence issues and the application of accounting standards in a dispute. He evaluated the external and internal audit functions of a major telecommunications company and advised on related financial management issues. He also aided a law firm to evaluate an audit failure by a major accounting firm. He is a recent former member of the Standing Advisory Group (SAG) of the Public Company Accounting Oversight Board (PCAOB) and prior to his appointment consulted with the PCAOB staff. He served on the NASDAQ Listing and Hearing Review Council where he was Chairman of its committee on Accounting and Audit Committees. He also served on the Federal Accounting Standards Advisory Board, the Government Auditing Standards Advisory Council, the Loan Loss Accounting Task Force of the AICPA and the Public Sector Committee of the International Federation of Accountants. From 1989 to September 30, 1996, Mr. Chapin was employed by the GAO, ending his service as the Assistant Comptroller General for Accounting and Information Management responsible for GAO’s financial and systems audits of federal agencies and corporations and for its reports and Congressional testimonies on financial management issues.

John Hill
Mr. Hill is Chief Executive Officer of the Federal City Council, with more than 28 years of experience in federal, state, local, and private sector entities. He formerly served as director of state and local government consulting services for Arthur Andersen, LLP, and was the founding executive director of the Washington, D.C. Financial Control Board. Mr. Hill has also served as a director in the U.S. General Accounting Office, director of audits with the Marriott Corporation, and audit manager for Coopers and Lybrand and Price Waterhouse.

James L. Hudson
Mr. Hudson served as the Vice-Chair of the National Capitol Revitalization Corporation and is currently involved in real estate and venture capital development. He was the Special Legislative Counsel for the cities of Detroit, New Orleans, Oakland and Kansas City where he provided legal and executive department support on city finance and economic development plans. In addition, he served as principal liaison with the U.S. Congress and the U.S. Departments of Housing and Urban Development, Labor and Transportation. Mr. Hudson also served as Finance Counsel for the District of Columbia government from 1974 to 1982.

Irving Pollack
Mr. Pollack was a former Commissioner and Director of the Divisions of Enforcement and Market Regulation for the U.S. Securities and Exchange Commission, Mr. Pollack is serving as Of Counsel to Fulbright & Jaworski L.L.P. He has consulted for numerous governmental and private institutions, including the World Bank, the International Finance Corporation (World Bank affiliate), the International Organization of Securities Commissions (IOSCO), the National Association of Securities Dealers, the Ontario and Quebec Securities Commissions and Merrill Lynch Pierce Fenner & Smith, Inc., Edward Jones, and the U.S. Synthetic Fuels Corporation. Mr. Pollack has rendered expert services for Dow Jones, the New York Stock Exchange, and other organizations. He recently served as a Director of ML Life Insurance Co. of New York and a member of its Audit & Compensation Committee.