January 29, 2003
Council of the District of Columbia
THE FISCAL YEAR 2002 COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DISTRICT OF COLUMBIA

Remarks of Natwar M. Gandhi, Chief Financial Officer

It is my pleasure to be here with you today to present you with the District of Columbia's Fiscal Year 2002 Comprehensive Annual Financial Report (CAFR). Once again, this report, conducted by the District's independent auditor, is being submitted on time, without qualification, and reflects a balanced budget with a small surplus.

New Accounting Changes
Before going into the details of the CAFR itself, I need to tell you that this is the first CAFR submitted under Governmental Accounting Standards Board (GASB) Statement Number 34. This directive, as those of you who are accountants know, established a new financial reporting model for state and local governments that conforms financial statements more to the private sector model. For the first time, we are valuing and reporting on all capital assets. Under this basis of accounting, revenues are recognized only to the extent they are collectible to pay liabilities within a year.

The good news is that this new standard gives a much more comprehensive picture of changes in a jurisdiction's total economic resources, and will put all jurisdictions on a common footing. Further, the OCFO was able to implement this modification in the display of financial data on time with minimal outside assistance. My understanding is that many jurisdictions have been required to request extensions in meeting this reporting requirement. And now to the details.

Budget Surplus
For the fiscal year ended September 30, 2002, the District is reflecting a surplus in general funds (excluding federal and private sources) of $27.4 million. This means that from its local source revenues, District expenditures came within seven-tenths of one percent of exactly matching revenue – a very close margin. Although presented differently in last year's CAFR, the comparable FY 2001 amount was $77.6 million. The close margin this year – closer than I as CFO would like – is the result of the combination of spending pressures encountered in FY 2002 coupled with the drop-off in revenue from levels initially projected.

I believe this outcome demonstrates that the financial assessments and forecasts our office made were very much on target. It also demonstrates the great seriousness of purpose exhibited by the Mayor and the Council in taking appropriate action to assure the District finished the year on-budget.

General Fund Revenues
General Fund Revenues, which now exclude operating grants and federal contributions, for FY 2002 were $3.677 billion, about $11.5 million less than the $3.688 billion upon which the operating budget for FY 2002 was premised. There is a hidden message in this number. It is that we cannot rely on revenue receipts consistently exceeding our initial budget projection, even though for all other CAFR's since FY 1997 actual revenues exceeded initial projections.

The Fund Balance
The Fund Balance in the CAFR is the net difference between the District's assets and liabilities as of the end of the fiscal year. At the General Fund Level, the District's own money, the FY 2002 Fund Balance is $865.3 million. Unfortunately, we cannot look to the Fund Balance as an easy way to solve financial problems. Of the General Fund Balance, $750 million is reserved for specific uses, principally our emergency and contingency reserves ($248.7 m.) and debt service ($188.7 m.). This leaves $115.3 million unreserved and undesignated. However, only $47.9 million of this is unrestricted cash.

In general, there is no advantage to having an ever-growing Fund Balance, even though current federal law does not give the District any access to its Fund Balance. In other jurisdictions, unrestricted cash is variously used to pay down debt, rebate taxes or meet necessary, one-time expenditures.

Cash Perspective
A key point to keep in mind as you study this CAFR is that it presents an accounting picture of our assets and liabilities as of the end of the year. In many respects, our position looks very positive and, compared to many other jurisdictions, it is very good indeed. However, both financial managers and policy makers need to keep in mind that we run on a day-to-day basis in paying our bills – approximately $500 million in cash outflows a month – and in this regard cash is king. There are seven conditions that, were any one to occur, would presage the return of the control board. All seven relate to the District being unable to meet its cash obligations.

While I foresee no immediate problem with our cash situation at this time, we need to monitor this area carefully and be very circumspect in taking any action that would reduce the flow of funds or radically alter the pattern by which funds are received.

Congratulations
I want to take this opportunity to thank the many employees, from financial and program areas, who have worked so long and so hard to ensure both 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 Anthony Pompa, my deputy CFO for financial operations and systems, and his staff for their hard work and dedication. The District owes them its thanks.

I also want to thank the accounting firm of KPMG, whose highly professional staff worked equally long and hard during the past few months to successfully complete this audit. In particular, I want to commend Karyn Molnar and Jack Reagan for their efforts.

Let me also extend my deepest thanks to the Mayor, Mrs. Cropp, Mr. Evans, the Council, and the Inspector General for their guidance, support, and oversight of the process over the past few months. Their leadership and commitment to fiscal prudence was an essential part of this successful CAFR.

A Final Note
With the issuance of this CAFR, the District has established that the process is now routine, with no concerns over its timeliness or securing a clean opinion. The issuance of this CAFR also confirms that the financial infrastructure is rebuilt and functioning well in support of the District's leaders as they make timely decisions. It also tells us that the District is fiscally solvent. But even though we were able to close FY 2002 successfully, I foresee fiscal challenges ahead as the District continues to face a nationwide economic downturn, works to close current spending pressures, and finds remedies to its inherent structural imbalance, which – if left unaddressed – could eventually precipitate spending in excess of revenues or serious cuts in city services.

The District's structural imbalance includes a prohibition on taxing federal real property, which comprises 42 percent of the District's property value, and other non-municipal tax-exempt property, such as universities, which comprise an additional 11 percent. Further constraining the District's tax base are restrictions on taxing income at source, which means that the District can tax just 34 percent of the income earned within its borders. The District also provides state-like functions such as human services, mental health, and higher education estimated at $500 million annually.

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

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