

**PUBLIC BRIEFING**  
**THE MAYOR'S FY 2006**  
**PROPOSED BUDGET AND FINANCIAL PLAN**

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

**The Honorable Linda W. Cropp, Chairman**

**March 23, 2005; 2:00 p.m.**  
**Council Chamber**



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

Good afternoon, Chairman Cropp, Mr. Evans, and members of the Committee of the Whole. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia, and I would like to offer brief remarks about the Fiscal Year 2006 Proposed Budget and Financial Plan.

The Office of the Chief Financial Officer has worked with the executive leadership team, as well as agency program and budget staff, to address numerous budget issues to produce a balanced five-year financial plan. We will continue to support this collaborative process as the Council deliberates.

## **AVAILABLE RESOURCES – LOCAL FUNDS**

### **Beginning Fund Balance, General Fund**

As recently noted in the FY 2004 Comprehensive Annual Financial Report (CAFR), the District concluded FY 2004 operations with a \$1.215 billion fund balance (i.e., net accumulated surplus). This fund balance consists of \$1,055.4 million (or 86.9 percent) in local funds and \$159.6 million (or 13.1 percent) in special purpose funds (O-Type). Please note that \$165.1 million of the fund balance (\$49.4 million in local funds and \$115.7 million in special purpose funds) was appropriated for use in FY 2005.

Based on current revenue and expenditure estimates for local funds, not considering the potential impact from Congressional supplemental appropriations or end of year CAFR audit adjustments, the General Fund is expected to end FY 2005 with an operating surplus of \$271.0 million (of which \$212.8 million is in local funds). This will increase the local fund balance.

As exhibited in Table 1, the fund balance for local funds is projected to be \$1.2188 billion at the end of FY 2005. Approximately 40 percent of this projected FY 2005 year end local fund balance (or \$500 million of \$1.2 billion) represents on-going, required commitments in the form of congressional mandates and bond covenant reserves. The remaining 60 percent of this projected local fund balance would be composed of items over which the Mayor and Council have autonomy, and thus represents a substantial asset to the District. How it is used should be considered in a very careful, judicious and strategic manner, considering cash flow concerns among others.

Table 1

<i>General Fund FY 2005 Local Fund Balance Analysis</i>	
<i>(\$ in millions)</i>	
<b>Beginning Fund Balance (October 1, 2004)</b>	\$ 1,055.4
Appropriated for FY 2005	(49.4)
Projected FY 2005 Operating Margin	<u>212.8</u>
<b>Projected Ending Fund Balance (September 30, 2005)</b>	<u><b>\$ 1,218.8</b></u>

### **FY 2006 Revenues**

In FY 2006, District local source revenue is forecasted to be \$4.51 billion, an increase of 5.6 percent over FY 2005 after tax policy changes. Underlying the District's robust revenue growth is continued strength in the District's real estate market and strong growth in personal income. Substantial increases in prices and the number of transactions in both residential and commercial real estate markets were major sources of revenue gains in FY 2003 and FY 2004, and are expected to contribute significantly to FY 2005 and FY 2006 revenues. Going forward, our

revenue projections assume District personal income will grow between 5 and 6 percent annually, and the financial markets will continue their recovery.

The Mayor's FY 2006 Proposed Budget includes tax policy reductions of \$41.1 million and revenue shifts to capital of \$30.0 million. The tax policy reductions include an increase in the homestead deduction, an increase in the local Earned Income Tax Credit, increases in both the standard deduction and the personal exemption, and a property tax deferral for low-income homeowners. The revenue shift to capital is to provide a dedicated stream of revenues to finance major investments in bridges and roads.

#### **EXPENDITURES – LOCAL FUNDS**

The magnitude of resources available for budgeting, both from the improved level of current revenues and the sizable accumulated surplus in the fund balance, is a definite factor and an opportunity in the formulation of the FY 2006 local funds operating budget. As is evident from the briefings I have provided, the District's economy and the revenue stream it produces to support District operations have outperformed expectations. Further, this level of economic performance, revenue generation, and fund balance build up was not envisioned when the legislative growth caps were instituted for the FY 2006 local funds operating budget. For example, compliance with the 4.7 percent growth cap leaves approximately \$149.4 million in unprogrammed FY 2006 revenues. As shown in Table 2 below, the Mayor has weighed these financial opportunities in formulating his policy goals for FY 2006, as incorporated into his proposed budget.

Table 2

<i>General Fund</i> <i>Proposed FY 2006 Budget Summary – Local Funds</i>  <i>(\$ in millions)</i>	
<b>Total Revenues</b>	\$ 4,562.9
Core Budget within legislative growth cap	4,413.5
Revenues in excess of legislative growth cap	\$ 149.4
Less Tax Policy Reductions and Revenues Shift to Capital	(71.1)
Adjusted Revenues in excess of legislative growth cap	\$ 78.3
Add Appropriated fund balance	466.9
Sources for Program and Fiscal Policy Initiatives	\$ 545.2
Less Program Policy Initiatives	(352.4)
Less Fiscal Policy Initiatives	(191.8)
<b>Projected FY 2006 Operating Margin</b>	<b>\$ 1.0</b>

The Mayor's FY 2006 local operating expenditure budget submission includes three requests: a core budget; program policy initiatives; and fiscal policy initiatives. The core budget request of \$4.413 billion is in compliance with the legislative growth cap. The program policy initiatives amounting to \$352.4 million are enhancements composed of both recurring and non-recurring expenditures designed for *Lifting All Communities*. The fiscal policy initiatives equaling \$191.8 million are Mayoral recommendations to address the long-standing unfunded liability for post-1987 retiree health benefits and to reduce the impact of previous, accelerated capital spending on the capital fund.

Table 3

<i>General Fund FY 2006 Local Budget Submission</i>				
<i>(\$ in millions)</i>				
<b>Fund Type</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>Change</b>	<b>% Change</b>
Core Budget within legislative growth cap	\$4,186.0	\$4,413.5	\$ 227.5	5.4%
Policy shift to O-Type Funds (recurring)		(54.4)	(54.4)	n/a
Core Budget including policy shift		\$4,359.1		
Program Policy Initiatives:				
Community Investments (recurring)	-	78.3	78.3	n/a
Resident Dividends (nonrecurring)	-	75.2	75.2	n/a
PayGo Capital (nonrecurring)	-	198.9	198.9	n/a
Net Change: Core Budget & Program Policy Initiatives			\$ 525.5	12.6%
Non-recurring Fiscal Policy Initiatives:				
Post Employment Health Benefits	-	138.0	138.0	n/a
Contribution to Capital Fund Balance	-	53.8	53.8	n/a
<b>Total Local Funds Request</b>	<b>\$4,186.0</b>	<b>\$4,903.3</b>	<b>\$ 717.3</b>	<b>17.1%</b>

The Mayor's FY 2006 core local budget proposal is \$4,413.5 million for a net increase of \$227.5 million, or 5.4 percent, over FY 2005 revised budget. This budget includes \$28.8 million in general operational enhancements and \$100.8 million in reductions to current programs. When the approved FY 2005 local funds budget is adjusted for pending supplemental appropriations, the Mayor's FY 2006 core local budget is consistent with the legislatively mandated expenditure growth cap. FY 2005 supplemental appropriations are Council approved budget revisions, which not only increase the FY 2005 baseline budget but also have out year impacts, and increase the legislative growth cap from 4.7 percent to 5.4 percent.

Next, in addition to the core local budget, the Mayor also has submitted three policy initiatives requiring \$352.4 million in local funds: Community Investments

of \$78.3 million, Resident Dividends of \$75.2 million and Pay-as-You-Go (PayGo) Capital of \$198.9 million. Only the \$78.3 million of the Community Investments policy initiative represents recurring costs that will become part of the District's baseline budget and financed by higher, on-going revenues.

A third and final component of the Mayor's submission includes \$191.8 million in nonrecurring fiscal policy initiatives aimed at continuing and improving the District's strong financial position. The discrete components of this initiative include \$138 million for funding post employment benefits (OPEB), a growing liability, and a \$53.8 million contribution to the Capital Projects Fund to pay for previous capital spending.

The Mayor's total local funds budget request for FY 2006 is \$4,903.3 million for an overall increase of \$717.3 million or 17.1 percent over the prior fiscal year.

## **FINANCING THE LOCAL BUDGET REQUEST**

The core budget is financed with revenues within the legislative growth cap. To finance both the program and fiscal policy initiatives, the Mayor utilizes the \$149.4 million in FY 2006 revenues that exceed the cap (mentioned above) and \$466.9 million from the accumulated fund balance. Table 4 demonstrates that the planned drawdown of fund balance will reduce the accumulated surplus for local funds to a projected \$752.9 million by the end of FY 2006.

Table 4

<i>General Fund FY 2006 Local Fund Balance Analysis</i>	
<i>(\$ in millions)</i>	
<b>Projected Beginning Fund Balance (October 1, 2005)</b>	\$ 1,218.8
Appropriated for FY 2006	(466.9)
Projected FY 2006 Operating Margin	<u>1.0</u>
<b>Projected Ending Fund Balance (September 30, 2006)</b>	<u>\$ 752.9</u>

### **PROPOSED FY 2006 GROSS FUNDS BUDGET**

The proposed FY 2006 gross funds operating budget is \$7,185.6 million, an increase of \$867.3 million, or 13.7 percent, over the approved FY 2005 gross funds budget of \$6,318.3 million. The \$867.3 million expenditure increase is comprised largely of a \$717.3 million increase in the local budget (including \$465.9 million of one-time spending), which reflects the Mayor’s proposed core budget, the program policy initiatives and fiscal policy initiatives discussed above. The other \$150.0 million increase in non-local funds reflects projected expenditures in federally funded programs (\$8.1 million) including Medicaid and in programs supported by user fees, fines, the dedicated portion of deed recordation and transfer taxes (for housing production), and other Special Purpose revenues (\$71.4 million). A small decrease (\$2.5 million) is projected in Private Grants, which slightly offsets the projected expenditure increases in federal funds and Special Purpose Revenues. The local and non-local funding components of the Proposed FY 2006 gross funds budget and the changes from FY 2005 are summarized in Table 5 below.



Table 5

<i>FY 2006 Gross Funds Budget By Fund Type</i>				
<i>(\$ in millions)</i>				
<b>Fund Type</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>Change</b>	<b>% Change</b>
Local	\$4,186.0	\$4,903.3	\$ 717.3	17.1%
Federal	821.5	862.6	41.1	5.0%
Federal Medicaid Payment	963.8	1,003.8	40.0	4.2%
Private Grants	14.2	11.7	(2.5)	(17.6)%
Special Purpose (O Type)	332.8	404.2	71.4	21.5%
<b>Total Gross Funds</b>	<b>\$6,318.3</b>	<b>\$7,185.6</b>	<b>\$ 867.3</b>	<b>13.7%</b>

## **CAPITAL IMPROVEMENTS PLAN**

The District faces a wide variety of infrastructure needs, placing great demands on its Capital Improvements Plan (CIP). The total proposed appropriation request for the FY 2006 - FY 2011 CIP is \$1.842 billion for all sources (excluding the Highway Trust Fund). This six-year plan includes a net increase in budget authority of \$624 million (\$684 million of new budget authority offset by \$60 million of rescissions). The increased budget authority will be financed by General Obligation (G.O.) bonds, the Master Equipment Lease Program, asset sales and PayGo financing. The FY 2006 capital program consists of \$540 million in planned capital expenditures (financed by \$341.1 million in new G.O. bond issuance and \$198.9 million of PayGo transfers from the General Fund balance), \$52 million of expenditures from the Local Streets Maintenance fund, as well as \$43.1 million of expenditures financed by other sources.

## **PERFORMANCE BUDGETING**

This budget also reflects our continued progress implementing performance-based budgeting (PBB). In fiscal year 2005, we transitioned 11 new agencies to PBB for

a grand total of 67 agencies now fully enrolled in PBB for FY 2006. These 67 agencies account for nearly 63 percent of the District's annual gross operating budget. Transition to PBB is a key accomplishment because it establishes a clear relationship between the funding that agencies receive, the programs they operate, and the results that they must achieve. A critical component of PBB is development of programmatic benchmarks to assist policy makers, District executives and the public in assessing the value of the District's programs and determining opportunities for improvement. The current set of benchmarks for District programs has grown from 39 benchmarks for 18 agencies in FY 2005 to 71 benchmarks for 26 agencies in the FY 2006 budget submission.

The leadership provided by the Mayor and the Council, along with the hard work of the Office of Budget and Planning and others in the Office of the Chief Financial Officer, allowed us to produce this balanced budget for FY 2006. As a result, I am certifying that the FY 2006 Budget and Financial Plan, as proposed, is balanced for FY 2006 and beyond.

I look forward to continuing to work with the Mayor and the Council during the forthcoming budget deliberations.

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