

PUBLIC BRIEFING ON
THE MAYOR'S PROPOSED FISCAL YEAR 2014
BUDGET AND FINANCIAL PLAN

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

The Honorable Phil Mendelson, Chairman

April 8, 2013, 10:00 a.m.
John A. Wilson Building
Council Chambers



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

Good morning, Chairman Mendelson and members of the Committee of the Whole. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia government. I am pleased to be here for the Council's public briefing on the Mayor's proposed FY 2014 Budget and Financial Plan for the period FY 2014 through FY 2017.

ECONOMIC OUTLOOK

The District's economy strengthened significantly during FY 2012, despite a rather lackluster national recovery. District revenues grew more than 11 percent during this period, and fortunately, these revenue gains are projected to continue through FY 2013 and beyond. Population growth has been a major factor in the District's recent revenue growth, increasing the city's income and sales tax bases, and contributing to rising residential property values and District resident employment.

Despite these positive trends, a high degree of uncertainty still clouds the future course of both the national and local economies. The greatest sources of uncertainty for the District are the measures that the federal government may take to reduce federal deficits during this period of austerity, the effects of which could last for some time. As you know, the federal sequester went into effect on March 1st of this year, and is expected to result in an estimated seven percent reduction in

non-defense discretionary spending. The revenue estimate that is the basis for the Budget and Financial Plan assumes that some significant measures to reduce federal spending will be enacted in the near future. The estimate has been adjusted to account for these reductions.

The possibility of federal reductions is not the only risk facing the District's economy. Other downside risks include financial market shocks from the on-going Euro-zone debt crisis, the possibility of a slowing or reversal of the still fragile economic recovery, possible disruptions to oil supplies in the Middle East, and the on-going threat of a national security event could all adversely affect the District's economy.

During this budget season, the Office of the Chief Financial Officer (OCFO) again worked collaboratively with the Mayor's Office of Budget and Finance (MOBF), the executive leadership team and agency program staffs to resolve numerous issues to produce a balanced budget and financial plan. The FY 2014 policy budget reflects funding priorities of Mayor Gray's administration.

After careful review, I have certified that the FY 2014 – FY 2017 Budget and Financial Plan, as proposed, are balanced.

FY 2014 BUDGET AND FINANCIAL PLAN

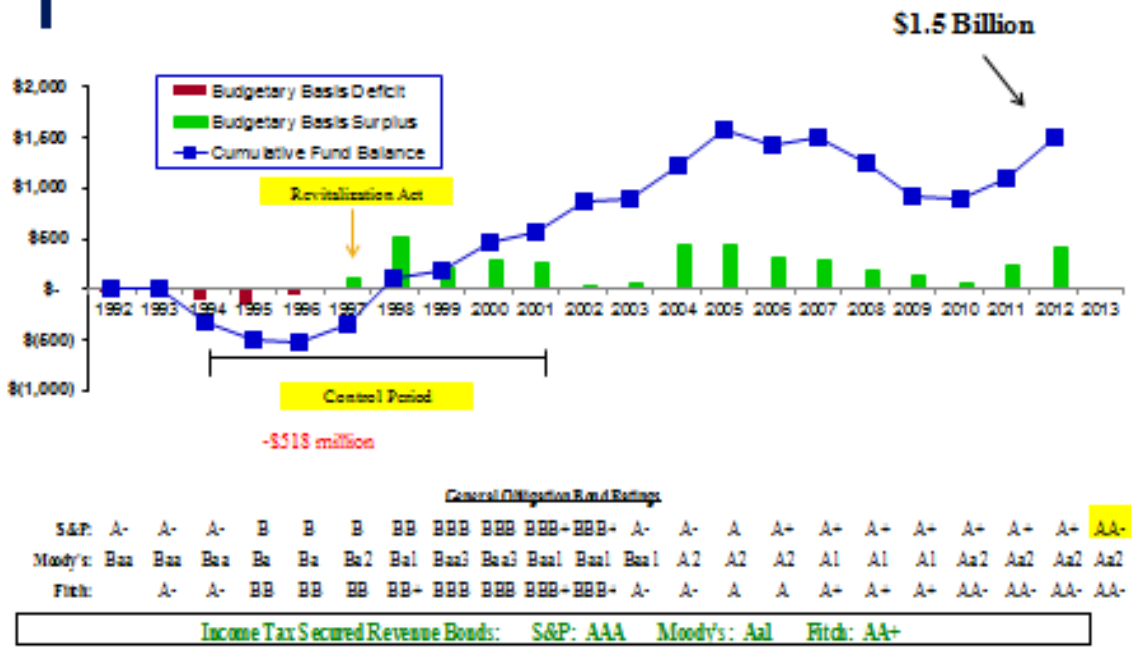
The challenges outlined above require the District to balance its many priorities in order to build a fiscally sound budget and financial plan that address FY 2014 expenditure needs with FY 2014 revenues, while making critical investments in the city's future.

GENERAL FUND BALANCE

In Fiscal Year 2012, the District increased its General Fund balance to \$1.5 billion. The chart below shows a history of the District's General Fund Balance and budgetary surplus.



District of Columbia Surplus and Bond Rating History



In accordance with the law, the undesignated and unreserved surplus at the end of FY 2012 was deposited into both the Fiscal Stabilization Reserve Account and the Cash Flow Reserve Accounts, thereby increasing our locally mandated reserves by \$247 million, to a total of \$442 million (See Attachment 1). Further, as you can see from Attachment 2, with the two new accounts adding to our “Rainy Day” reserves, our working capital situation increased the District’s spendable funds to the equivalent of about 47 days’ spending. We are well on our way to rebuilding

fund balance to the level recommended by the Government Finance Officers Association of two months' expenditures in reserve.

When we visited the rating agencies in February, this improvement in fund balance was well received, and greatly contributed to the recent upgrade in the District's General Obligation (GO) bonds by Standard and Poor's from A+ to AA-. If the District continues to rebuild the fund balance and reaches the desired level of the equivalent of two months' spending in the reserve funds, or about a billion dollars, I believe the District will be well positioned to maintain and improve its strong ratings on its General Obligation bonds and other General Fund supported debt.

REVENUES

The FY 2013 baseline estimate of \$6.05 billion in total Local Fund revenue, which excludes Dedicated Taxes and Special Purpose Revenue, is \$91.8 million (1.5%) more than FY 2012 revenue. The \$6.13 billion estimate for FY 2014 is an increase of \$79.7 million (1.3%) over FY 2013. Including Dedicated General Fund Tax Revenue, Special Purpose Revenues, and policy initiatives, total FY 2013 General Fund revenue in the financial plan is \$6.77 billion. Total General Fund revenue in FY 2014 is \$6.96 billion, \$186.7 million more than FY 2013.

Various policy initiatives increase General Fund revenue in FY 2014 by \$75.1 million, \$61.1 million of which are Local Fund revenues. Some of the major policy proposals are listed below:

- Automated Traffic Enforcement Revenue Initiatives expand the use of speeding and other automated traffic enforcement cameras to 91 additional locations. This adds \$31.7 million to FY 2014 revenue.
- Adjustments to fines for motor vehicle speeding adds \$12.4 million to FY 2014 revenue.
- A Hospital Provider Fee assessed on patient gross receipts of every hospital in the District, at an estimated rate of 0.15 percent, will raise \$12.8 million of revenue in FY 2014. These funds will be deposited to the Hospital Provider Fee Fund, which will be used to make Medicaid access payments for the provision of outpatient hospital services effective May 1, 2013.
- Various Office of Tax and Revenue (OTR) tax compliance programs add \$12.0 million to FY 2014 revenue. OTR is planning to broaden the use of federal matching programs by both expanding its compliance personnel and making programming improvements to its information infrastructure. These changes will help OTR take advantage of additional federal matching

initiatives, which can help improve detection of income tax errors or abuse, facilitate direct debit of payment plans for delinquent taxpayers, and automate billing for District income tax liabilities arising from receipt of IRS revenue agent reports.

EXPENDITURES

Local Funds

The Mayor’s Proposed FY 2014 Budget includes \$6.30 billion in spending supported by \$6.30 billion of resources, with an operating margin of \$0.6 million, as shown in Table 1.

Table 1	
Proposed FY 2014 Budget Summary	
Local Funds	
(\$ in millions)	
Taxes	\$ 5,655.8
Non-Tax Revenues	415.6
Lottery	63.5
All Other	9.5
Revenue Proposals	61.1
Fund Balance Use	96.5
Total Local Fund Resources	\$ 6,301.9
Local Expenditures	\$ 6,301.3
Projected FY 2014 Operating Margin	\$0.6

Note: Details may not add to totals due to rounding.

Gross Funds

The proposed FY 2014 gross funds operating budget (excluding intra-District funds) is \$12.1 billion, an increase of \$707.4 million, or 6.2 percent, over the FY 2013 approved gross budget of \$11.4 billion. The Local and non-Local funding components of the proposed FY 2014 gross budget and the changes from FY 2013 are summarized in Table 2 below.

Table 2				
FY 2014 Gross Funds Budget by Fund Type				
(\$ in millions)				
Fund Type	FY 2013 Approved	FY 2014 District's Proposed	Change	% Change
Local	\$ 5,912.0	\$ 6,301.3	\$ 389.3	6.6%
Dedicated Tax	260.6	295.0	34.5	13.2%
Special Purpose	475.7	512.0	36.3	7.6%
Subtotal, General Fund	6,648.2	7,108.3	460.1	6.9%
Federal	2,761.3	2,967.8	206.5	7.5%
Private	6.3	6.9	0.6	8.8%
Total, Operating Funds	9,415.8	10,083.0	667.2	7.1%
Enterprise and Other Fund	1,951.2	1,991.4	40.2	2.1%
Total Gross Funds	\$ 11,367.1	\$ 12,074.4	\$ 707.4	6.2%
Total Gross FTEs	32,578	32,596	18.8	0.1%

Note: Details may not add to totals due to rounding.

MAJOR COST DRIVERS – LOCAL FUNDS

Overall, the FY 2014 Local funds budget increased by \$389.3 million, or 6.6 percent, over FY 2013. Table 3 provides a snapshot of the major cost drivers associated with the increase. For additional details on the cost drivers, please see Attachment 3.

Table 3	
FY 2014 Local Funds – Cost Drivers	Amount
FY 2013 Approved Local Funds	\$ 5,912.0
Major Changes:	
<i>D.C. Public Charter Schools</i> – inflationary increase of 2% to UPSFF and enrollment	81.1
<i>Workforce Investments</i> – proposed cost-of-living adjustments	59.4
<i>Repayment of Loans and Interest</i> – increased borrowing	55.2
<i>Department of Human Services</i> – replacement of loss of TANF funds	40.6
<i>Department of Health Care Finance</i> – Medicaid growth rate of 5.1%	26.1
<i>Housing Authority Subsidy</i> – increased rent supplement funding	20.0
<i>Department of General Services</i> – increased fixed costs	18.1
<i>Metropolitan Police Department</i> – increased funding for Automated Traffic Enforcement initiative	16.0
<i>One City Fund</i> – one-time funding that will provide competitive grant funds to District not-for-profit organizations	15.0
<i>Non-Public Tuition</i> – reduced student placements	(29.9)
<i>Other</i>	87.7
Total Changes	\$ 389.3

FY 2014 Proposed Local Funds	\$ 6,301.3
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Note: Details may not add to totals due to rounding

BUDGET ITEMS TO MONITOR

The OCFO will continue to work with the Mayor’s Office of Budget and Finance to monitor spending to ensure that the District ends each fiscal year in balance. To that end, the OCFO will closely watch the following items included in the FY 2014 Proposed Budget.

- **Non-Public Tuition (NPT):** The FY 2014 Proposed Budget for NPT of \$80 million includes a net reduction of \$29.9 million, or 27.2 percent, in Local funds from the agency’s FY 2013 budget request of \$109.9 million. The Office of the State Superintendent for Education implemented a new rate-setting initiative in the FY 2013 school year. This action, along with a steady decline in the number of non-public tuition students over the past two years, may result in the proposed savings. The OCFO will closely monitor this initiative.
- **Settlements and Judgments (S&J):** A potential adverse judgment against the District in a dispute involving the Fire and Emergency Medical Services Department may result in a \$36 million expenditure. This case is currently under appeal. The Mayor’s budget proposes to recognize this potential liability

and to include language in the Budget Request Act, to be approved by Congress, that would remove the liability. If this language is not adopted, the progress of the case must be closely monitored so the District can be prepared for a possible payment.

As I noted in my certification letter, if these changes are not implemented, savings may not be realized or costs may be incurred resulting in spending pressures that must be addressed.

CAPITAL IMPROVEMENTS PLAN

The District is addressing its continuing infrastructure needs through its Capital Improvements Plan (CIP). The District, however, is limited by constraints on its levels of General Obligation (GO) Bonds and Income Tax Secured Bonds (ITSB) borrowing. Taken together, these factors place a premium on developing a sound CIP to make the best use of limited resources. The total proposed appropriation request for the FY 2014 through FY 2019 CIP is approximately \$2.2 billion for all sources, which consists of \$2.7 billion of new budget authority partly offset by \$556 million of rescissions. The increased budget authority will be financed with ITSB or GO bonds, Grant Anticipation Revenue Vehicle (GARVEE) bonds, Revenue bonds, Pay-As-You-Go (PAYGO) transfers from the General Fund, the

Master Equipment Lease Program, Federal Grants, a local match to the grants from the Federal Highway Administration, private donations, sales of assets and local transportation fund revenue.

The proposed FY 2014 capital program includes approximately \$1.4 billion in planned capital expenditures to be financed by \$1.0 billion in new ITSB or GO bond issuances, \$40.0 million from Revenue bond issuance, \$17.5 million from the Master Equipment Lease Program, \$14.1 million in PAYGO, \$215.5 million in federal grants, \$46.4 million in the Local Match to the Federal Highway Administration grants and \$21.5 million from the Local Transportation Revenue Fund.

Debt service within the budget and financial plan period remains below the 12 percent debt cap.

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The leadership provided by the Mayor, and the District Council, along with the hard work of the Office of Budget and Planning and the Associate Chief Financial Officers and their staffs, allowed us to work effectively together to produce a balanced budget. I look forward to continuing to work with the Council during the

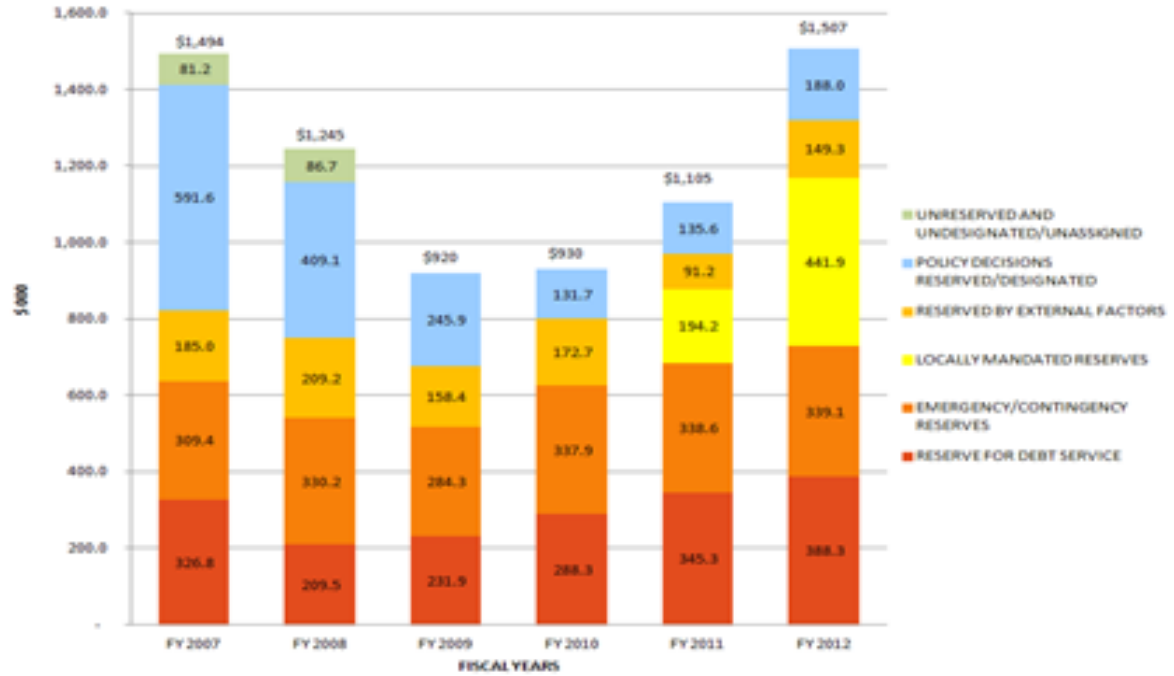
upcoming budget deliberations. This concludes my testimony. I would be happy to answer any questions that the Committee may have.



Composition of General Fund Balance

FY 2007 – FY 2012

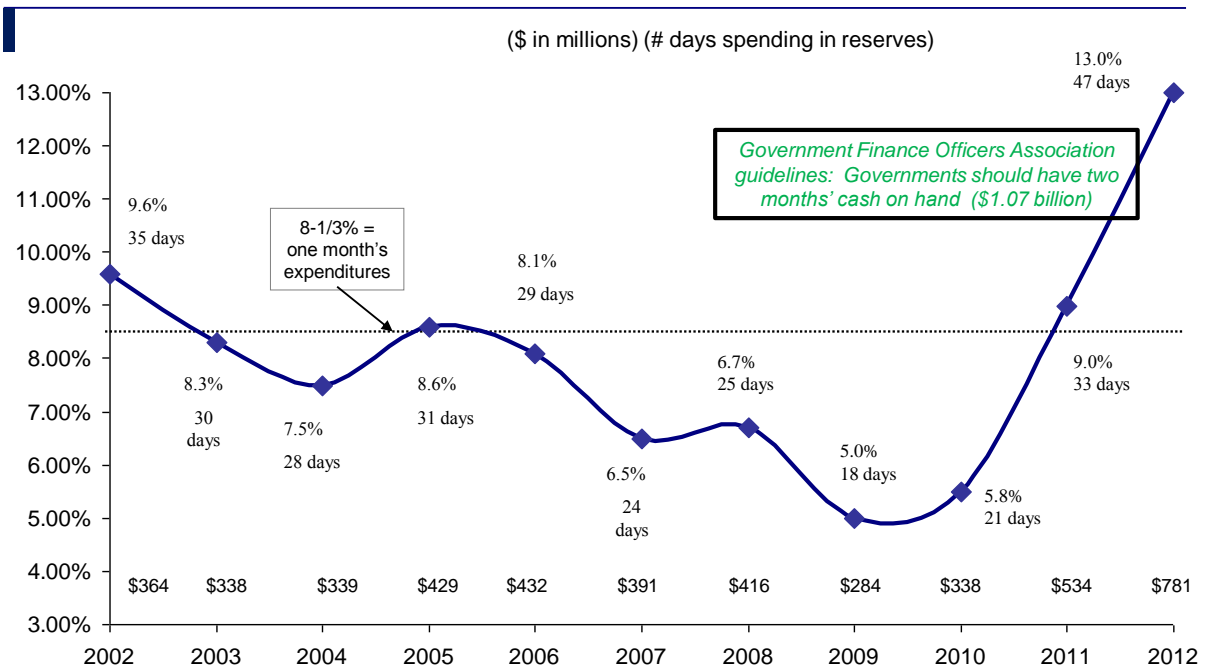
(\$ in millions)





Total Working Capital

Congressionally Mandated Emergency/Contingency Reserves and Locally Mandated Reserves as a Percent of Next Year's Budgetary Expenditures And Number of Days of Funds Available in Reserve



Primary Cost Drivers

- **District of Columbia Public Charter Schools (DCPCS):** \$81.1 million increase over FY 2013, attributed to projected increased student enrollment. The budget anticipates that student enrollment will increase by 3,711 students, or 11.0 percent, over the FY 2013 proposed enrollment of 33,699 students to 37,410 in FY 2014.
- **Workforce Investments (WI):** \$59.4 million increase over FY 2013 to address proposed Local funds cost-of-living adjustment to both union and non-union employees.
- **Repayment of Loans and Interest:** \$55.2 million increase over FY 2013, which is the result of the District's increased borrowing.
- **Department of Human Services (DHS):** \$40.6 million increase over the FY 2013 budget, which includes funds to replace loss of federal funds for Temporary Aid to Needy Families (TANF), emergency rental assistance, rapid re-housing, and targeted initiatives for homeless youth.
- **Department of Healthcare Finance (DHCF):** \$26.1 million increase over FY 2013, which is due to a projected aggregate Medicaid growth rate of 5.1

percent over FY 2013, which is largely driven by enrollment forecasts for Medicaid Managed Care and Fee-for-Service. Managed Care coverage includes the parents, children, and childless adults who are under age 65 and do not have disabilities, as well as the Children's Health Insurance Program (CHIP), and Health Services for Children with Special Needs (HSCSN). Other variables affecting Medicaid growth include enrollment forecasts for Medicaid Home and Community-Based Services Waivers, which include the Developmental Disabilities (DD) and the Elderly and Physically Disabled (EPD) waivers.

- **Housing Authority Subsidy:** \$20.0 million increase over FY 2013 to support the Local Rent Supplement Program which provides rental assistance to low-income families throughout the District.
- **Department of General Services (DGS):** \$18.1 million increase in Local funds is due primarily to the forecasted expenditures in fixed costs, including rent estimates, facility and security costs.
- **The Metropolitan Police Department (MPD):** \$16.0 million increase over the FY 2013 Local funds budget, attributed to an increase of \$12.7 million for additional Automated Traffic Enforcement initiatives (ATE) and \$5.6 million for 93 additional sworn officers and 10 police cadets.

- **One City Fund (OCF):** \$15.0 million in one-time funding that will provide competitive grant funds to District not-for-profit organizations in education, job training, health, senior services, arts, public safety and the environment.

PROPOSED BUDGET AND FINANCIAL PLAN-GENERAL FUND

Table 3-1

FY 2014 - 2017 Proposed Budget and Financial Plan: GENERAL FUND

(\$ thousands)

	FY 2012 Actual	FY 2013 Approved	FY 2013 Revised	FY 2014 Proposed	FY 2015 Projected	FY 2016 Projected	FY 2017 Projected
1 Revenues							
2 Taxes	5,435,187	5,307,745	5,547,431	5,655,803	5,795,552	5,976,533	6,155,434
3 Dedicated Taxes	406,665	257,618	279,497	287,618	281,710	290,739	290,343
4 General Purpose Non-Tax Revenues	454,634	373,316	419,331	415,591	411,099	404,858	349,567
5 Special Purpose (O-type) Revenues	421,590	447,719	453,836	463,983	496,130	477,785	476,773
6 Transfer from Lottery	66,404	63,175	63,175	63,455	66,700	68,000	69,000
7 Interfund transfer	0	18,797	25,197	0	0	0	0
8 Subtotal, General Fund Revenues	6,784,480	6,468,370	6,788,467	6,886,450	7,051,191	7,217,915	7,341,117
9 Bond Proceeds for Issuance Costs	3,142	6,000	6,000	6,000	6,000	6,000	6,000
10 Funds set aside from prior year	0	18,231	18,231	96,501	0	0	0
11 Impact of Social E-Commerce Job Creation Tax Incentive Act of 2012	0	0	0	0	0	(2,950)	(3,080)
13 Transfer from Federal and Private Resources	1,478	3,497	3,497	3,497	3,497	3,497	3,497
14 Transfer from Enterprise and Other Funds	25,403	6,632	6,632	0	0	0	0
15 Fund Balance Use	5,769	31,246	116,800	49,963	0	0	0
16 Revenue Proposals	0	115,202	(13,686)	75,053	77,791	72,126	68,932
17 Total General Fund Resources	6,820,272	6,649,178	6,925,941	7,117,464	7,138,479	7,296,588	7,416,466
18							
19 Expenditures (by Appropriation Title)							
20 Governmental Direction and Support	520,529	602,430	611,517	657,549	639,729	651,552	657,151
21 Economic Development and Regulation	198,185	291,790	357,863	327,409	297,405	303,523	299,231
22 Public Safety and Justice	948,964	995,575	998,218	1,036,110	1,049,278	1,072,798	1,077,198
23 Public Education System	1,567,337	1,620,000	1,631,888	1,705,946	1,706,812	1,731,901	1,758,781
24 Human Support Services	1,610,189	1,643,871	1,672,642	1,740,468	1,712,753	1,730,772	1,755,518
25 Public Works	482,900	512,737	518,522	559,332	565,995	575,141	581,390
26 Financing and Other	540,813	634,071	667,927	711,412	757,501	811,412	836,428
27 Bond Issuance Costs	4,348	6,000	6,000	6,000	6,000	6,000	6,000
28 Subtotal, Operating Expenditures	5,873,265	6,306,475	6,464,577	6,744,225	6,735,472	6,883,099	6,971,698
29 Paygo Capital	80,878	35,803	44,462	35,645	40,689	38,408	69,568
30 Transfer to Trust Fund for Post-Employment Benefits	109,800	107,800	107,800	107,800	114,400	121,600	129,400
31 Repay Contingency Reserve Fund	0	750	144	5,500	5,500	0	0
32 Transfer to Enterprise Funds	339,598	197,403	197,403	215,170	219,145	228,350	225,785
33 Operating impact of CIP	0	0	0	0	22,204	13,493	17,970
34 Total Expenditures and Transfers	6,403,539	6,648,231	6,814,386	7,108,340	7,137,410	7,284,951	7,414,421
35 Operating Margin before allocation to reserves	416,733	947	111,555	9,124	1,069	11,638	2,045
36 Reserved for subsequent years' expenditures	18,231	0	96,501	0	0	0	0
37 Cash Flow Reserve Account	193,971	193	193	317	534	5,819	1,023
38 Fiscal Stabilization Reserve Account	53,776	193	193	317	534	5,819	1,023
39 Operating Margin, Budget Basis	150,755	561	14,669	8,491	0	(0)	0
40							
41 Composition of Cash Reserves							
42 Emergency Cash Reserve Balance (2%)	10,989	110,135	109,986	110,135	110,748	113,359	113,682
43 Contingency Cash Reserve Balance (4%)	209,968	226,386	223,050	226,386	229,727	230,073	230,419
44 Total Cash Reserves - Emergency and Contingency	220,957	336,521	333,036	336,521	340,475	343,432	344,101

(Continued on next page)

CAPITAL FUND PRO-FORMA

Table CA-3

Capital Fund Pro Forma

(Dollars in thousands)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Total	Percent of FY 2014
Sources:								
G.O. /LT. Bonds	\$1,026,250	\$912,951	\$722,399	\$449,628	\$460,343	\$455,738	\$4,027,310	74.3%
Master Equipment Lease	17,452	15,358	9,900	-	200	-	\$42,910	1.3%
Paygo	14,137	18,637	15,975	47,125	93,213	135,327	\$324,414	1.0%
Sale of Assets	-	9,150	25,500	-	-	-	\$34,650	0.0%
Private Grants	-	-	-	-	5,000	-	\$5,000	0.0%
Revenue Bonds - Housing Production Trust Fund	40,000	37,000	-	43,000	-	-	\$120,000	2.9%
Local Transportation Fund Revenue	21,508	22,052	22,433	22,433	22,433	22,433	\$133,293	1.6%
GARVEE Bonds	-	-	67,770	117,290	108,230	-	\$291,290	0.0%
Local Highway Trust Fund	46,439	39,264	40,872	40,871	40,871	40,872	\$249,189	3.4%
Federal Grants	215,451	158,532	156,679	156,679	156,679	156,679	\$1,000,699	15.6%
Total Sources	\$1,381,237	\$1,212,944	\$1,061,529	\$877,027	\$884,969	\$811,049	\$6,228,754	100.0%
Uses:								
District of Columbia Public Schools	\$441,595	\$370,184	\$291,818	\$175,065	\$226,293	\$288,676	\$1,793,621	32.0%
Department of Transportation	393,232	421,398	442,810	425,889	454,642	365,888	\$2,503,859	28.5%
Local Transportation Fund	140,642	223,602	245,259	228,339	257,093	168,337	\$1,262,576	
Highway Trust Fund	252,590	197,796	197,551	197,550	197,550	197,551	\$1,240,588	
Office of the Deputy Mayor for Planning and Economic Development	124,400	74,800	43,900	58,000	-	-	\$301,100	9.0%
Washington Metropolitan Area Transit Authority	122,635	116,625	107,161	118,833	118,833	117,400	\$701,487	8.9%
Department of Parks and Recreation	49,891	37,285	20,300	16,300	14,800	18,675	\$157,232	3.6%
Office of Unified Communications	31,000	3,000	1,000	-	-	-	\$35,000	2.2%
Fire and Emergency Medical Services Department	26,148	15,500	11,500	-	-	-	\$53,148	1.9%
Department of General Services	22,100	18,700	8,100	8,100	8,100	6,100	\$71,200	1.6%
Metropolitan Police Department	18,211	9,950	7,000	-	-	-	\$35,161	1.3%
University of the District of Columbia	17,493	9,941	21,339	4,840	7,310	9,310	\$70,234	1.3%
Office of the Chief Technology Officer	16,105	11,258	-	-	-	-	\$27,363	1.2%
District of Columbia Public Library	12,950	30,525	46,200	50,000	50,000	-	\$189,675	0.9%
Department of Healthcare Finance	12,400	12,400	2,000	-	-	-	\$26,800	0.9%
Department of Employment Services	12,000	6,000	-	-	-	-	\$18,000	0.9%
Department of Corrections	11,200	2,000	1,250	-	-	-	\$14,450	0.8%
Department of Public Works	9,364	4,500	-	-	-	-	\$13,864	0.7%
Department of the Environment	8,800	15,000	15,000	10,000	-	-	\$48,800	0.6%
Office of the Deputy Mayor for Education	8,000	4,000	-	-	-	-	\$12,000	0.6%
Office of Planning	7,177	3,000	1,750	-	-	-	\$11,927	0.5%
Office of the Chief Financial Officer	6,800	5,500	3,000	-	-	-	\$15,300	0.5%
Department of Behavioral Health	6,120	5,000	5,000	5,000	-	-	\$21,120	0.4%
Special Education Transportation	6,021	6,223	6,388	-	-	-	\$18,632	0.4%
Department of Human Services	5,000	5,000	837	-	-	-	\$10,837	0.4%
Commission on Arts and Humanities	5,000	5,000	5,000	5,000	5,000	5,000	\$30,000	0.4%
Office of the Secretary	4,000	20,000	20,000	-	-	-	\$44,000	0.3%
Department of Youth Rehabilitation Services	1,950	-	-	-	-	-	\$1,950	0.1%
Department of Consumer and Regulatory Affairs	1,470	-	-	-	-	-	\$1,470	0.1%
Office of Zoning	175	175	175	-	-	-	\$525	0.0%
Total Uses	\$1,381,237	\$1,212,944	\$1,061,529	\$877,027	\$884,969	\$811,049	\$6,228,754	100.0%

Note: Details may not sum to totals due to rounding.