**NEW ISSUE BOOK-ENTRY-ONLY**

**Bond Ratings:**
**Fitch: "AA"**
**Moody's: "Aa1"**
**S&P: "AA"**
**See "RATINGS" herein.**

*In the opinion of Bond Counsel, under existing law, assuming continuous compliance by the District with certain covenants described more fully under "TAX MATTERS" herein, (1) the interest on the Bonds is excludable from gross income for Federal income tax purposes, and (2) the interest on the Bonds is not an enumerated item of tax preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the Federal alternative minimum tax imposed on certain corporations. As described herein under "TAX MATTERS," other Federal income tax consequences may arise from ownership of the Bonds. In the further opinion of Bond Counsel, under the existing law of the District, the Bonds and interest on the Bonds are exempt from District taxation, except for estate, inheritance and gift taxes. See "TAX MATTERS" herein for a description of certain other tax consequences to holders of the Bonds.*

# $534,190,000
# DISTRICT OF COLUMBIA
# (Washington, D.C.)

**$500,000,000**
**General Obligation Bonds,**
**Series 2015A**

**$34,190,000**
**General Obligation Refunding Bonds,**
**Series 2015B**

**Dated: Date of delivery** **Due: June 1, as shown on the inside cover page**

*This cover page contains certain information for quick reference only. It is not a summary of this Official Statement and investors must read the entire Official Statement to obtain the information essential to the making of an informed investment decision.*

The General Obligation Bonds, Series 2015A (the "Series 2015A Bonds") and General Obligation Refunding Bonds, Series 2015B (the "Series 2015B Bonds," and together with the Series 2015A Bonds, the "Bonds"), are general obligations of the District of Columbia (the "District") and the full faith and credit of the District is pledged to the payment of the principal of and interest on the Bonds when due. The Bonds are further secured by a valid, binding, and perfected security interest in the revenue derived from the Special Real Property Tax (as defined herein), which is levied annually by the District, without limitation as to rate or amount, in amounts sufficient to pay the principal of and interest on the Bonds and any other outstanding general obligation Parity Bonds (as defined herein) when due. The District has entered into a collection agreement whereby all real property tax payments (of which the Special Real Property Tax is a component) are collected by a collection agent, acting for and on behalf of the District.

The proceeds of the Series 2015A Bonds will be used to (1) finance capital project expenditures under the District's capital improvements plan, and (2) pay the costs and expenses of issuing and delivering the Series 2015A Bonds.

The proceeds of the Series 2015B Bonds will be used to (1) refund a portion of the District's outstanding General Obligation Refunding Bonds, Series 2005B (the "Refunded Bonds"), and (2) pay the costs and expenses of issuing and delivering the Series 2015B Bonds.

The Bonds will be issued only as fully registered bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository. Individual purchases will be made in book entry-only form. Wells Fargo Bank, N.A. is the registrar, escrow agent, and paying agent (in such capacities, "Registrar," "Escrow Agent" and "Paying Agent," respectively).

The Bonds will be issued in authorized denominations of $5,000 or any integral multiple thereof and will bear interest at the rates set forth on the inside cover page hereof, payable semi-annually on June 1 and December 1, commencing December 1, 2015, computed on the basis of a 360-day year comprised of twelve 30-day months.

The Bonds are subject to redemption prior to maturity as described herein.

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*The Bonds are offered when, as and if issued by the District, subject to receipt of the approving legal opinion of Venable LLP, Washington, D.C., Bond Counsel to the District. The Office of the Attorney General for the District of Columbia will deliver an opinion as to certain legal matters pertaining to the District. Hawkins Delafield & Wood LLP, Washington, D.C., Disclosure Counsel to the District, will deliver an opinion to the District and the Underwriters regarding certain matters. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Squire Patton Boggs (US) LLP, Washington, D.C., and Graves, Horton, Askew & Johns, LLC, Washington, D.C. It is anticipated that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York on or about June 24, 2015.*

## Citigroup

**Siebert Brandford Shank & Co., L.L.C.**
**Academy Securities, Inc.**
**CastleOak Securities, L.P.**
**Loop Capital Markets**

**Wells Fargo Securities**
**BofA Merrill Lynch**
**Fidelity Capital Markets**
**Stifel**

June 4, 2015

## MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES, YIELDS AND CUSIPS†

**$534,190,000**
**DISTRICT OF COLUMBIA**
**(Washington, D.C.)**

**$500,000,000**
**General Obligation Bonds,**
**Series 2015A**

**Serial Bonds**

| Year (June 1) | Principal Amount | Interest Rate | Price | Yield | CUSIP† |
|---|---|---|---|---|---|
| 2018 | $100,000 | 5.00% | $111.021 | 1.17% | 25476FPX0 |
| 2019 | $12,990,000 | 5.00% | $113.738 | 1.40% | 25476FPY8 |
| 2020 | $13,640,000 | 5.00% | $115.919 | 1.63% | 25476FPZ5 |
| 2021 | $14,325,000 | 5.00% | $117.200 | 1.92% | 25476FQA9 |
| 2022 | $15,040,000 | 5.00% | $118.342 | 2.14% | 25476FQB7 |
| 2023 | $15,790,000 | 5.00% | $119.562 | 2.29% | 25476FQC5 |
| 2024 | $16,580,000 | 5.00% | $120.441 | 2.44% | 25476FQD3 |
| 2025 | $17,410,000 | 5.00% | $121.089 | 2.58% | 25476FQE1 |
| 2026 | $18,280,000 | 5.00% | $119.444* | 2.75%* | 25476FQF8 |
| 2027 | $19,195,000 | 5.00% | $118.298* | 2.87%* | 25476FQG6 |
| 2028 | $20,155,000 | 5.00% | $117.353* | 2.97%* | 25476FQH4 |
| 2029 | $21,160,000 | 5.00% | $116.418* | 3.07%* | 25476FQJ0 |
| 2030 | $22,220,000 | 5.00% | $115.861* | 3.13%* | 25476FQK7 |
| 2031 | $23,330,000 | 5.00% | $115.031* | 3.22%* | 25476FQL5 |
| 2032 | $24,500,000 | 5.00% | $114.573* | 3.27%* | 25476FQM3 |
| 2033 | $25,725,000 | 5.00% | $114.208* | 3.31%* | 25476FQN1 |
| 2034 | $27,010,000 | 5.00% | $113.936* | 3.34%* | 25476FQP6 |
| 2035 | $28,360,000 | 5.00% | $113.754* | 3.36%* | 25476FQQ4 |
| 2036 | $29,775,000 | 5.00% | $113.393* | 3.40%* | 25476FQS0 |
| 2037 | $31,265,000 | 5.00% | $113.032* | 3.44%* | 25476FQT8 |
| 2038 | $32,830,000 | 5.00% | $112.763* | 3.47%* | 25476FQU5 |

**Term Bond**

| Year (June 1) | Principal Amount | Interest Rate | Price | Yield | CUSIP† |
|---|---|---|---|---|---|
| 2040 | $70,320,000 | 4.00% | $100.569* | 3.93%* | 25476FQR2 |

**$34,190,000**
**General Obligation Refunding Bonds,**
**Series 2015B**

| Year (June 1) | Principal Amount | Interest Rate | Price | Yield | CUSIP† |
|---|---|---|---|---|---|
| 2025 | $8,255,000 | 5.00% | $121.089 | 2.58% | 25476FQV3 |
| 2026 | $19,395,000 | 5.00% | $119.444* | 2.75%* | 25476FQW1 |
| 2027 | $6,540,000 | 5.00% | $118.298* | 2.87%* | 25476FQX9 |

* Yield and price to the first par call date of June 1, 2025.

† CUSIP is a registered trademark of the American Bankers Association (the "ABA"). CUSIP data is provided by CUSIP Global Services, which is managed on behalf of the ABA by S&P Capital IQ, a division of McGraw Hill Financial, Inc. The CUSIP numbers listed above are being provided solely for the convenience of the holders of the Bonds only at the time of issuance of the Bonds, and the District and the Underwriters do not make any representation with respect to such CUSIP numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP numbers are subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that may be applicable to all or a portion of the Bonds.

**DISTRICT OF COLUMBIA**

**Muriel Bowser**
Mayor

**EXECUTIVE OFFICERS**

| | |
|---|---|
| Rashad M. Young | City Administrator |
| Jennifer C. Niles | Deputy Mayor for Education |
| Brian Kenner | Deputy Mayor for Planning and Economic Development |
| Brenda Donald | Deputy Mayor for Health and Human Services |
| Kevin Donahue | Deputy Mayor for Public Safety and Justice |
| Courtney Snowden | Deputy Mayor for Greater Economic Opportunity |
| Karl A. Racine | Attorney General |
| Jeffrey S. DeWitt | Chief Financial Officer |
| Jeffrey Barnette | Deputy Chief Financial Officer and Treasurer |
| Fitzroy A. Lee | Deputy Chief Financial Officer for Revenue Analysis |
| Stephen M. Cordi | Deputy Chief Financial Officer for Tax and Revenue |
| Bill Slack | Deputy Chief Financial Officer for Financial Operations and Systems |
| Gordon McDonald | Deputy Chief Financial Officer for Budget and Planning |

**COUNCIL OF THE DISTRICT OF COLUMBIA**

Phil Mendelson, Chairman

| | | | |
|---|---|---|---|
| Elissa Silverman | At Large | Mary M. Cheh | Ward 3 |
| David Grosso | At Large | Brandon Todd | Ward 4 |
| Vincent B. Orange, Sr. | At Large | Kenyan R. McDuffie | Ward 5 |
| Anita Bonds | At Large | Charles Allen | Ward 6 |
| Brianne Nadeau | Ward 1 | Yvette M. Alexander | Ward 7 |
| Jack Evans | Ward 2 | LaRuby May | Ward 8 |

**INVESTOR RELATIONS**

Jeffrey Barnette
Deputy Chief Financial Officer and Treasurer
Office of Finance and Treasury
1101 Fourth Street, S.W., Suite 850
Washington, D.C. 20024
phone: (202) 727-6055
fax: (202) 727-6963
e-mail: dcinvestorrelations@dc.gov

**FINANCIAL ADVISORS**

Public Resources Advisory Group, Inc.
New York, New York

First Southwest Company, LLC
Dallas, Texas

**BOND COUNSEL**

Venable LLP
Washington, D.C.

**DISCLOSURE COUNSEL**

Hawkins Delafield & Wood LLP
Washington, D.C.

**No dealer, broker, salesperson or other person has been authorized by the District of Columbia (the "District") to give any information or to make representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.**

**The information set forth herein has been furnished by the District and includes information obtained from other sources, all of which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.**

**The order and placement of materials in this Official Statement, including the appendices, are not to be deemed a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provisions or sections of this Official Statement. The offering of the Bonds is made only by means of this entire Official Statement.**

**The statements contained and incorporated by reference in this Official Statement and appendices hereto and in any other information provided by the District and other parties to the transactions described herein that are not purely historical are forward-looking statements. Such forward-looking statements can be identified, in some cases, by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "illustrate," "example," and "continue," or the singular, plural, negative or other derivations of these or other comparable terms. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to such parties on the date hereof, and the District assumes no obligation to update any such forward-looking statements. The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in various important factors. Accordingly, actual results may vary from the projections, forecasts and estimates contained in this Official Statement and such variations may be material, which could affect the ability of the District to fulfill some or all of its obligations under the Bonds.**

**The Underwriters (as defined herein) have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.**

**In connection with the offering of the Bonds, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of such Bonds at levels above those which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.**

**THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**THIS OFFICIAL STATEMENT IS BEING PROVIDED TO PROSPECTIVE PURCHASERS EITHER IN BOUND PRINTED FORM ("ORIGINAL BOUND FORMAT") OR IN ELECTRONIC FORMAT ON THE FOLLOWING WEBSITE: HTTP://WWW.MUNIOS.COM. THIS OFFICIAL STATEMENT MAY BE RELIED UPON ONLY IF IT IS IN ITS ORIGINAL BOUND FORMAT OR IF IT IS PRINTED IN FULL DIRECTLY FROM SUCH WEBSITE.**

## Summary of the Offering

***This summary is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the Bonds to potential investors is made only by means of the entire Official Statement, including the cover page, the inside cover page, and the Appendices, and other documents available for review and to which reference is herein made. Capitalized terms used in this summary and not otherwise defined have the meanings given to such terms in this Official Statement.***

| | |
|---|---|
| **Issuer:** | The District of Columbia (the "District"). |
| **Bonds Offered:** | $500,000,000 aggregate principal amount of its General Obligation Bonds, Series 2015A (the "Series 2015A Bonds").<br><br>$34,190,000 aggregate principal amount of its General Obligation Refunding Bonds, Series 2015B (the "Series 2015B Bonds," and together with the Series 2015A Bonds, the "Bonds"). |
| **Interest Payment Dates:** | Interest on the Bonds will be payable semiannually on each June 1 and December 1, commencing on December 1, 2015. |
| **Security and Sources of Payment:** | The following is qualified in all respects by the information in this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and the documents referenced under such caption.<br><br>Full Faith and Credit. The Bonds are general obligations of the District and the full faith and credit of the District is pledged to the payment of the principal of and interest on the Bonds when due.<br><br>Special Real Property Tax. The Bond Act levies, without limitation as to rate or amount, for each real property tax year in which Parity Bonds (as defined herein) are outstanding, a Special Real Property Tax in amounts sufficient to pay the principal of and interest on any Parity Bonds coming due each year. Pursuant to the Bond Act, the District irrevocably pledges all of its right, title, and interest in the revenue derived from the Special Real Property Tax for the benefit of the holders of any Parity Bonds.<br><br>Perfected Security Interest. The pledge of the Special Real Property Tax creates a valid, binding, and perfected security interest in the revenue derived from such tax. The pledge and lien created by such security interest is valid, binding, and perfected as against any claims against the District.<br><br>Segregated Funds. The District is obligated to set aside the revenue derived from the Special Real Property Tax in a separate debt service fund to be maintained separate from other funds of the District and the District has established the Special Tax Fund for such purpose. The District has entered into the Collection Agreement whereby all real property tax payments (of which the Special Real Property Tax is a component) are collected by the Collection Agent, acting for and on behalf of the District. |

The Collection Agent (1) calculates the portion of real property tax payments that is allocable to the real property tax and the Special Real Property Tax and (2) segregates and transfers the Special Real Property Tax receipts into a separate account held by the Custodian. The Custodian, from such separate account, pays on a weekly basis to the Escrow Agent the amount designated in writing by the District as necessary for debt service on any Parity Bonds. Such debt service payments are made by the Escrow Agent.

Bond Act. The Bond Act also provides that the District and its Mayor are required to carry out any agreement with or for the benefit of bond or note owners, including, among other things, (1) requiring the collection and deposit of the Special Real Property Tax, (2) enforcing the security interest of the holders of the Bonds in the funds derived from the Special Real Property Tax, and (3) ordering payment of the Bonds from funds of the District not otherwise legally committed or, in the absence thereof, ordering the District and its Mayor to take all lawful action to obtain such funds. If there is an event of default, the Bond Act also provides that bond or note holders may file a lawsuit to enforce their rights or to enjoin any acts that may be unlawful or in violation of such rights.

Statutory Debt Limitation – Federal Law. The District is subject to statutory debt limitations. The Home Rule Act provides that additional Parity Bonds (other than refunding bonds) and Income Tax Bonds are not legally permitted to be issued if, at the time the additional Parity Bonds or Income Tax Bonds are to be issued, such issuance would cause the debt service in any Fiscal Year on the aggregate amounts of the outstanding Parity Bonds, Income Tax Bonds, capital project loans from the Treasury and the additional bonds proposed to be issued to exceed 17% of local-source District revenues (less certain special revenue categories) that the Mayor estimates and the District of Columbia Auditor certifies are expected to be received in the Fiscal Year in which the additional bonds are to be issued.

Statutory Debt Limitation – District Law. In 2009, the District passed the Debt Ceiling Act, which imposes a further limit on the issuance of Tax-Supported Debt, including the Bonds and Parity Bonds, if such issuance would result in total debt service in the Fiscal Year of issuance, or any of the five succeeding Fiscal Years, on all outstanding Tax-Supported Debt in excess of 12% of annual District General Fund expenditures and transfers in any applicable Fiscal Year, as contained in the most recently enacted District budget. The Debt Ceiling Act excludes certain forms of indebtedness from this calculation, which are described more fully in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Statutory Debt Limitations" herein.

Chapter 9 Currently Inapplicable. Under existing federal bankruptcy law, the District is not identified as an entity that is eligible to file a petition for an adjustment of debts under Chapter 9 of the United States Bankruptcy Code.

**Financial Oversight:**

The Authority Act. In 1995, the District of Columbia Financial Responsibility and Management Assistance Authority (the "Authority") was established pursuant to the Authority Act, which granted the Authority substantial powers over the financial activities and management operations of the District government during any "Control Period" as defined in the Authority Act. In 2001, the Authority's initial Control Period was terminated following improvements in the District's financial condition. The Authority suspended its activities on September 30, 2001 and, as of the date hereof, the Authority remains dormant. Under the provisions of the Authority Act, a Control Period will be initiated if, among other things, the District defaults with respect to any loan, bond, note or other form of borrowing. If a new Control Period were to be initiated under the existing Authority Act, the Authority would be reconstituted and resume its full statutory powers. For more information on the Authority, see Part 2, "THE DISTRICT OF COLUMBIA – The Authority" herein.

Relationship to Federal Government – General. Notwithstanding the Home Rule Act's delegation to the District of authority for self-government, Congress reserves the right to exercise its Constitutional authority as the legislature for the District by enacting legislation on any subject. Such legislative authority is subject to Constitutional limitations on the powers of the United States government. The federal government assumes the costs of certain District state-like functions, such as the Courts and incarceration of convicted felons, and also provides revenues to the District for other functions and for certain programs, such as Medicaid, school improvements and the Tuition Assistance Grant program.

Relationship to Federal Government – Budgetary Matters. For each Fiscal Year, the Mayor is required by the Home Rule Act to submit to the Council, at such time as the Council directs, a budget, prepared on the basis that proposed expenditures do not exceed resources. Upon approval by the Council, the budget is transmitted by the Mayor to the President, for transmission by the President to Congress. After the submission of the District's proposed budget to Congress, the District's budget is subject to the Congressional appropriations process. Congress is free to alter the budget as it sees fit. If Congress fails to enact the District's appropriations act by the start of the new Fiscal Year on October 1, Congress must enact a continuing resolution in order for the District to expend its revenues and operate the government. The District cannot spend money, including locally generated funds, without Congressional appropriations or authorization, except for certain designated purposes, including, among other things, the payment of debt service on Parity Bonds, Income Tax Bonds, and general obligation tax revenue anticipation notes. However, the current federal appropriations act for Fiscal Year 2015 (Pub. L. No. 113-235) provides that if, during Fiscal Year 2016, Congress has passed neither an appropriations act nor a continuing resolution, then the District may expend locally generated funds provided in the Fiscal Year 2016 Budget Request Act of 2015 as submitted to Congress. This assumes that the Fiscal Year 2016 Proposed Budget is submitted to Congress under the Home Rule Act, as opposed to under the Budget Autonomy Act, as described in "CHANGES FROM THE PRELIMINARY OFFICIAL STATEMENT."

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| | For more information on the District's relationship to the federal government, see Part 2, "THE DISTRICT OF COLUMBIA – Congressional Authority" and "– Federal Funding" and "BUDGETING AND FINANCIAL PROCEDURES – General" herein. |
| **Additional Bonds:** | The District may issue Parity Bonds under the circumstances described herein. |
| **Use of Proceeds:** | The proceeds of the Series 2015A Bonds are being used to (1) finance capital project expenditures under the District's capital improvements plan, and (2) pay the costs and expenses of issuing and delivering the Series 2015A Bonds.<br><br>The proceeds of the Series 2015B Bonds are being used to (1) refund a portion of the District's outstanding General Obligation Refunding Bonds, Series 2005B (the "Refunded Bonds"), and (2) pay the costs and expenses of issuing and delivering the Series 2015B Bonds. |
| **Redemption:** | The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Redemption" herein. |
| **Authorized Denominations:** | The Bonds will be issued as registered bonds in denominations of $5,000 and integral multiples thereof. |
| **Form and Depository:** | The Bonds will be delivered solely in registered form under a global book-entry system through the facilities of DTC. |
| **Tax Status:** | For information on the tax status of the Bonds, see the italicized language at the top of the cover page of this Official Statement and "TAX MATTERS" herein. |
| **Continuing Disclosure:** | The District will enter into a Continuing Disclosure Agreement to assist the Underwriters in complying with the provisions of Rule 15c2-12, as further described in "CONTINUING DISCLOSURE" herein. The form of Continuing Disclosure Agreement that the District will enter into is attached as APPENDIX C hereto. |
| **Ratings:** | Fitch "AA"<br>Moody's "Aa1"<br>S&P "AA"<br>See "RATINGS" herein. |

***The Bonds have not been registered with the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended, in reliance upon the exemption contained in Section 3(a)(2) of such act, and the Authorizing Acts have not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions contained in such act.***

***The Bonds have not been approved or disapproved by the SEC or by the securities commission or any regulatory authority of any state, nor has the SEC or any state securities commission or regulatory authority passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.***

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**FOR**
**PART 1**

**TABLE OF CONTENTS**
**FOR**
**PART 2**

**Part 1**
**of the**
**Official Statement**
**of the**
**DISTRICT OF COLUMBIA**
**(Washington, D.C.)**
**relating to**

**$534,190,000**
**DISTRICT OF COLUMBIA**
**(Washington, D.C.)**

| **$500,000,000 General Obligation Bonds, Series 2015A** | **$34,190,000 General Obligation Refunding Bonds, Series 2015B** |
|---|---|

## INTRODUCTION

The Preliminary Official Statement for the Bonds was dated May 26, 2015 (the "Preliminary Official Statement"). In addition to updating the Preliminary Official Statement with the pricing information for the Bonds, including the interest rates, maturities, and redemption provisions, and the Annual Debt Service Schedule, the District has identified certain events that have occurred since the date of the Preliminary Official Statement. These events are described below in "CHANGES FROM THE PRELIMINARY OFFICIAL STATEMENT."

The District of Columbia (the "District") has prepared this Official Statement in connection with the issuance and sale of $500,000,000 aggregate principal amount of its General Obligation Bonds, Series 2015A (the "Series 2015A Bonds") and $34,190,000 aggregate principal amount of its General Obligation Refunding Bonds, Series 2015B (the "Series 2015B Bonds," and together with the Series 2015A Bonds, the "Bonds").

This Official Statement consists of the cover page, the inside cover page, the Tables of Contents, this Part 1, including the Appendices to this Part 1 (all of the foregoing are referred to collectively as "Part 1") and the attached Part 2 ("Part 2"). Both this Part 1 and Part 2 are dated as of the date set forth on the cover page. Both Part 1 and Part 2 should be read in their entirety. Part 1 of this Official Statement contains information relating principally to the Bonds. Part 2 of this Official Statement contains information relating principally to the government and economic resources of the District, and includes certain financial and other information supplementing the most recent general purpose financial statements of the District, which can be found in the District's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ("Fiscal Year") ended September 30, 2014. The following portion of the CAFR for Fiscal Year 2014 is incorporated herein by reference: the information under the heading "Financial Section," from pages 21-159, inclusive (collectively, the "Fiscal Year 2014 Financial Statements"). The District's CAFR for Fiscal Year 2014 and the Fiscal Year 2014 Financial Statements can be found on the District's website at http://cfo.dc.gov/node/771312 or by registering with and logging onto the website of Digital Assurance Certification, L.L.C. ("DAC") at www.dacbond.com. DAC is the disclosure dissemination agent for the District. All information contained in Part 1 and Part 2 of this Official Statement pertaining to financial information or results for any year after Fiscal Year 2014 is preliminary, unaudited, and subject to change.

References herein to the "District" refer to the District of Columbia as a municipal corporation and references to the "District of Columbia" refer to the District of Columbia as a geographical location.

***Investor Relations***. Investor information, including the District's CAFRs, may be requested in writing from the Treasurer, Office of Finance and Treasury, 1101 Fourth Street, S.W., Suite 850, Washington, D.C. 20024, by phone at (202) 727-6055, by e-mail at dcinvestorrelations@dc.gov, or by fax at (202) 727-6963. As disclosure dissemination agent for the District, DAC has agreed to promptly file with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system, upon receipt from the District, the District's annual financial information and notices of events that are required by the Continuing Disclosure Agreement. See "CONTINUING DISCLOSURE." Certain financial information with respect to the District may be obtained through the website of DAC at www.dacbond.com. Any such information speaks strictly as of its date and the District has undertaken no obligation to update such information, other than in accordance with its continuing disclosure undertakings and applicable law. Periodically, the District updates its investor website (www.buyDCbonds.com) with information regarding prospective financings.

## THE BONDS

### Authorization

Section 461 of the District of Columbia Home Rule Act, as amended, an act of the United States Congress (the "Congress") signed by the President on December 24, 1973 (the "Home Rule Act"), authorizes the District to issue general obligation bonds to provide for the payment of the cost of acquiring or undertaking its various capital projects (D.C. Official Code § 1-204.61). See Part 2, "INDEBTEDNESS – Summary of Statutory Debt Provisions."

The issuance of the Bonds is authorized pursuant to the General Obligation Bonds and Bond Anticipation Notes for Fiscal Years 2013-2018 Authorization Act of 2012, D.C. Law 19-231, effective March 19, 2013 (the "Bond Act"), the Fiscal Year 2015 Income Tax Secured Revenue Bonds and General Obligation Bond Issuance Approval Resolution of 2014, R20-687, effective November 28, 2014 (the "Resolution"), and the Bond Issuance Certificate of the Mayor of the District of Columbia (the "Mayor") dated the date of issuance of the Bonds (the "Bond Issuance Certificate," together with the Home Rule Act, the Bond Act and the Resolution, the "Authorizing Acts").

The Bonds, together with the District's outstanding general obligation bonds and general obligation bonds issued in the future that are secured by the Special Real Property Tax (as defined herein) and issued under Section 461 of the Home Rule Act, are referred to herein collectively as the "Parity Bonds." For a description of outstanding Parity Bonds, See Part 2, "INDEBTEDNESS – Summary of Statutory Debt Provisions" and "– Long-Term Obligations – *General Obligation Bonds*."

### Purpose of the Issue

The proceeds of the Series 2015A Bonds will be used to (1) finance capital project expenditures in the District's capital improvements plan, and (2) pay the costs and expenses of issuing and delivering the Series 2015A Bonds. See Part 2, "FISCAL YEAR 2015 APPROVED BUDGET AND FINANCIAL PLAN."

The proceeds of the Series 2015B Bonds will be used to (1) refund a portion of the District's outstanding General Obligation Refunding Bonds, Series 2005B (the "Refunded Bonds") to reduce interest expense, and (2) pay the costs and expenses of issuing and delivering the Series 2015B Bonds. See Table 1 below for more information on the Refunded Bonds.

**Table 1. Refunded Bonds**

| Maturities (June 1) | Par Amount | Interest Rate | Call Date | CUSIP |
|---|---|---|---|---|
| 2025 | $10,290,000 | 5.00% | June 25, 2015 | 25476A8J1 |
| 2026 | $21,530,000 | 5.00% | June 25, 2015 | 25476A8K8 |
| 2027 | $8,780,000 | 5.00% | June 25, 2015 | 25476A8L6 |

The Escrow Agent will disburse $40,735,333.33 of proceeds of the Series 2015B Bonds to Wells Fargo Bank, N.A., the trustee for the Refunded Bonds, to pay the principal of and accrued interest on the Refunded Bonds due on their redemption date of June 25, 2015.

### General

The Bonds will be dated the date of their delivery, and bear interest at the rates set forth on the inside cover page hereof, payable semiannually on June 1 and December 1, commencing December 1, 2015, until final payment or maturity. Interest shall be computed on the basis of a three hundred sixty (360) day year consisting of twelve (12) months of thirty (30) days each. The Bonds shall be issuable only as fully registered bonds in denominations of $5,000 and multiples thereof.

### Redemption

***Optional Redemption***. The Series 2015A Bonds maturing before June 1, 2026 are not subject to optional redemption. The Series 2015A Bonds maturing on or after June 1, 2026, shall be subject to redemption prior to maturity, in whole or in part in any authorized denomination on any date on or after June 1, 2025, at the option of the District, at the redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

The Series 2015B Bonds maturing before June 1, 2026 are not subject to optional redemption. The Series 2015B Bonds maturing on or after June 1, 2026, shall be subject to redemption prior to maturity, in whole or in part in any authorized denomination on any date on or after June 1, 2025, at the option of the District, at the redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

***Mandatory Sinking Fund Redemption***. The Series 2015A Bonds scheduled to mature on June 1, 2040, shall be subject to mandatory sinking fund redemption at the redemption price of 100% of the principal amount to be redeemed, together with accrued interest to the redemption date, on June 1, in the years and principal amounts set forth below:

| Year (June 1) | Principal Amount |
|---|---|
| 2039 | $34,470,000 |
| 2040* | $35,850,000 |

* Maturity

***Notice of Redemption***. Notice of redemption is to be mailed, postage paid, not less than 30 nor more than 60 days prior to the date fixed for redemption to each registered owner of Bonds to be redeemed, at such owner's address in the bond register kept by the Registrar and by such other method, if any, as the District shall deem appropriate. Such notice shall specify the maturities and interest rate of the Bonds to be redeemed, the date fixed and place(s) for redemption and, if less than all of the Bonds of any like maturity are to be redeemed, the letters, numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and, if applicable, that such notice is conditional and the conditions that must be satisfied.

While the Bonds are subject to the book-entry system, redemption notices will be sent to DTC. See APPENDIX B – "Book-Entry-Only System."

***Partial Redemption***. If less than all of the Bonds of any maturity bearing the same interest rate are to be redeemed, DTC's practice is to determine by lot the particular Bonds or portions of any such Bonds to be redeemed. See APPENDIX B – "Book-Entry-Only System."

If less than the entire principal amount of the Bonds is called for redemption, the District is required to execute and the Registrar is required to authenticate and deliver, upon surrender of such Bonds, without charge to the registered owner thereof, one or more new Bonds of any authorized denomination, of like maturity, interest rate, and aggregate principal amount of the Bonds so surrendered. If, on the date fixed for redemption, moneys for the redemption of all of the Bonds or portions thereof to be redeemed are held by the Registrar so as to be available therefor and if notice of redemption is given as set forth in the third preceding paragraph, interest on such Bonds will cease from and after the date fixed for redemption.

**Sources and Uses of Funds**

The sources and uses of the proceeds of the Bonds are set forth below:

| | **Series 2015A Bonds** | **Series 2015B Bonds** | **Total** |
|---|---|---|---|
| **Sources:** | | | |
| Principal Amount | $500,000,000.00 | $34,190,000.00 | $534,190,000.00 |
| Original Issue Premium | 67,950,860.10 | 6,708,749.95 | 74,659,610.05 |
| **Total Sources:** | **$567,950,860.10** | **$40,898,749.95** | **$608,849,610.05** |
| **Uses:** | | | |
| Deposit to Capital Projects Fund | $565,639,415.40 | - | $565,639,415.40 |
| Deposit to Refunded Bonds Payment Account(1) | - | $40,735,333.33 | 40,735,333.33 |
| Underwriters' Discount | 1,637,527.18 | 112,669.15 | 1,750,196.33 |
| Costs of Issuance(2) | 673,917.52 | 50,747.47 | 724,664.99 |
| **Total Uses:** | **$567,950,860.10** | **$40,898,749.95** | **$608,849,610.05** |

(1) Such deposit in the Refunded Bonds Payment Account will be applied by the Escrow Agent to the payment of the principal of and accrued interest on the Refunded Bonds being redeemed on June 25, 2015.

(2) Includes, among other items, paying agent fees, legal fees, financial advisory fees, rating agency fees, dissemination agent fees, printing costs and rounding.

## ANNUAL DEBT SERVICE SCHEDULE

The table below sets forth the debt service requirements for the District's currently outstanding general obligation bonds, the debt service requirements for the Bonds, and total debt service on all of the foregoing.

### District of Columbia
### General Obligation Bonds[(1)]

| Fiscal Year Ending (Sept. 30) | Debt Service on Currently Outstanding General Obligation Bonds[(2), (3), (4), (5)] | Debt Service on the Series 2015A Bonds | Debt Service on the Series 2015B Bonds | Total Debt Service on the Bonds | Total Debt Service on Parity Bonds Outstanding Following Issuance of the Bonds[(2), (3), (4), (5)] |
|---|---|---|---|---|---|
| 2015 | $252,580,126 | - | - | - | $252,580,126 |
| 2016 | 276,865,028 | $22,744,504 | $1,600,282 | $24,344,786 | 301,209,815 |
| 2017 | 267,123,836 | 24,296,800 | 1,709,500 | 26,006,300 | 293,130,136 |
| 2018 | 252,010,256 | 24,396,800 | 1,709,500 | 26,106,300 | 278,116,556 |
| 2019 | 237,251,457 | 37,281,800 | 1,709,500 | 38,991,300 | 276,242,757 |
| 2020 | 272,580,920 | 37,282,300 | 1,709,500 | 38,991,800 | 311,572,720 |
| 2021 | 253,315,281 | 37,285,300 | 1,709,500 | 38,994,800 | 292,310,081 |
| 2022 | 246,311,678 | 37,284,050 | 1,709,500 | 38,993,550 | 285,305,228 |
| 2023 | 212,635,747 | 37,282,050 | 1,709,500 | 38,991,550 | 251,627,297 |
| 2024 | 207,883,989 | 37,282,550 | 1,709,500 | 38,992,050 | 246,876,039 |
| 2025 | 193,958,148 | 37,283,550 | 9,964,500 | 47,248,050 | 241,206,198 |
| 2026 | 183,637,554 | 37,283,050 | 20,691,750 | 57,974,800 | 241,612,354 |
| 2027 | 186,523,250 | 37,284,050 | 6,867,000 | 44,151,050 | 230,674,300 |
| 2028 | 166,601,875 | 37,284,300 | - | 37,284,300 | 203,886,175 |
| 2029 | 166,797,963 | 37,281,550 | - | 37,281,550 | 204,079,513 |
| 2030 | 179,257,350 | 37,283,550 | - | 37,283,550 | 216,540,900 |
| 2031 | 208,591,375 | 37,282,550 | - | 37,282,550 | 245,873,925 |
| 2032 | 212,653,038 | 37,286,050 | - | 37,286,050 | 249,939,088 |
| 2033 | 212,484,513 | 37,286,050 | - | 37,286,050 | 249,770,563 |
| 2034 | 150,204,600 | 37,284,800 | - | 37,284,800 | 187,489,400 |
| 2035 | 173,994,913 | 37,284,300 | - | 37,284,300 | 211,279,213 |
| 2036 | 173,996,788 | 37,281,300 | - | 37,281,300 | 211,278,088 |
| 2037 | 173,997,963 | 37,282,550 | - | 37,282,550 | 211,280,513 |
| 2038 | 64,673,313 | 37,284,300 | - | 37,284,300 | 101,957,613 |
| 2039 | 66,089,288 | 37,282,800 | - | 37,282,800 | 103,372,088 |
| 2040 | - | 37,284,000 | - | 37,284,000 | 37,284,000 |
| **Total** | **$4,992,020,245** | **$891,674,904** | **$52,799,532** | **$944,474,436** | **$5,936,494,681** |

(1) Totals may not total due to rounding.
(2) Does not account for federal subsidies expected with respect to the District's Build America Bonds.
(3) Net of the Refunded Bonds. See "THE BONDS – Purpose of the Issue." Assumes interest rate for unhedged variable rate bonds (Multimodal General Obligation Refunding Bonds (Variable Rate Demand Obligations), Series 2014A (the "Series 2014A Bonds") and the new money portion of the Multimodal General Obligation Refunding Bonds (Variable Rate Demand Obligations), Series 2014B (the "Series 2014B Bonds")) calculated at 1.5% through Fiscal Year 2015 and 3% thereafter.
(4) Interest on the General Obligation Bonds, Series 2004B (the "Series 2004B Bonds"), which are the subject of a swap agreement, has been calculated using rates varying from 4.598% to 5.121%, representing the fixed rates payable by the District under the swap agreement.
(5) The refunding portion of the Series 2014B Bonds, which are the subject of a swap agreement, has been calculated at the associated swap fixed rate of 3.615% plus, pursuant to a direct purchase transaction, a LIBOR index rate spread of 0.42%. Pursuant to any future remarketing, the interest rate on the Series 2014B Bonds may be higher or lower than this aggregate rate. The direct purchase agreement for the Series 2014A Bonds and Series 2014B expires on June 23, 2017.

**Book-Entry-Only System**

The Bonds will be issued as fully-registered bonds, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership interests in the Bonds will be available in book-entry-only form. Purchasers of beneficial ownership interests in the Bonds will not receive certificates representing their interests in the Bonds purchased. See APPENDIX B – "Book-Entry-Only System." Principal of and interest on the Bonds are payable, so long as the Bonds are in book-entry form, through a securities depository as described in APPENDIX B.

*None of the District, the Underwriters (as defined herein), the Registrar, the Escrow Agent, or the Paying Agent has any responsibility or obligation to any Beneficial Owner (as defined in APPENDIX B) with respect to (1) the accuracy of any records maintained by DTC or any DTC participant, (2) the distribution by DTC or any DTC participant of any notice that is permitted or required to be given to the owners of the Bonds, (3) the payment by DTC or any DTC participant of any amount received with respect to the Bonds, (4) any consent given or other action taken by DTC or its nominee as the owner of the Bonds or (5) any other related matter.*

**Method of Payment and Transfer**

Principal of the Bonds is payable, when due, upon presentation and surrender of the Bonds at the principal corporate trust office of the Registrar.

Interest on the Bonds is payable by check or draft mailed to the person in whose name the Bonds are registered on the bond register kept by the Registrar at the close of business on the Record Date (as defined below) at such person's address as it appears in the bond register. So long as Cede & Co. is the registered owner of the Bonds, all such payments are to be made to Cede & Co.

"Record Date" means the 15th day (whether or not a Business Day) of the calendar month immediately preceding each interest payment date.

"Business Day" means any day on which the offices of the government of the District and the Escrow Agent are open for regular business.

The transfer of Bonds is registrable only upon the registration books maintained by the District for that purpose at the principal corporate trust office of the Registrar, by the registered owner thereof or by the owner's attorney duly authorized in writing, upon surrender thereof together with an instrument of transfer satisfactory to the Registrar and duly executed by the registered owner or the registered owner's duly authorized attorney and payment of any tax, fee or other governmental charge imposed because of such transfer. Upon such surrender for registration of transfer, the District will execute and the Registrar will authenticate and deliver a new Bond or Bonds of any authorized denominations, registered in the name of the transferee, and of the same aggregate principal amount, series, maturity and interest rate as the surrendered Bond or Bonds. Unless future rules and practices of the secondary securities market stipulate that the fees of the Registrar be paid by the transferor or transferee of previously registered Bonds, all costs of such transfer will be paid for by the District.

The Bonds may be exchanged for an equal aggregate principal amount of Bonds of the same maturity and interest rate and of any authorized denominations, upon surrender thereof at the principal corporate trust office of the Registrar together with a written notice of transfer satisfactory to the Registrar, duly executed by the registered owner or the owner's duly authorized attorney and upon payment of any tax, fee or other governmental charge imposed because of such exchange.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### General Obligation and Other Security

The Bonds are general obligations of the District and the full faith and credit of the District is pledged for the payment of the principal of and interest on the Bonds when due. The Bonds are payable from all funds of the District not otherwise legally committed and constitute continuing obligations until paid in accordance with their terms. The Home Rule Act requires the Council of the District of Columbia (the "Council") to provide in each annual budget sufficient funds to pay the principal of, and interest on, the Bonds and all other general obligation bonds and notes of the District. However, the appropriation of funds by the Council or Congress is not a pre-condition to the payment of such principal and interest.

The District's obligation to pay principal of and interest on the Parity Bonds and general obligation notes of the District are the only obligations of the District secured by its full faith and credit and unlimited taxing powers. In addition, the Parity Bonds and general obligation notes are secured by: (1) legally available funds of the District, including for the Parity Bonds a lien on and perfected security interest in the revenue derived from the Special Real Property Tax (as described below) and (2) the statutory obligation of the Mayor to ensure that the principal of and interest on such bonds and notes are paid when due. For a description of outstanding Parity Bonds, see Part 2, "INDEBTEDNESS – Summary of Statutory Debt Provisions" and "– Long-Term Obligations – *General Obligation Bonds*."

**The full faith and credit of the United States is not pledged for the payment of the principal of and interest on the Bonds, nor is the United States responsible or liable for the payment thereof.**

### Special Real Property Tax

The Bond Act levies, without limitation as to rate or amount, for each real property tax year in which the Parity Bonds are outstanding, a Special Real Property Tax in amounts sufficient to pay the principal of and interest on any Parity Bonds coming due each year (the "Special Real Property Tax").

Pursuant to the Bond Act, the District irrevocably pledges for and on behalf of the holders of any Parity Bonds all of its right, title, and interest in and to the revenue derived from the Special Real Property Tax. Such security interest is valid, binding, and perfected (1) from the time of the delivery of any Parity Bonds with or without the physical delivery of any revenue derived from the Special Real Property Tax and with or without any further action, and (2) whether or not any statement, document, or instrument relating to such security interest is recorded or filed. The pledge and lien created by the security interest is valid, binding, and perfected with respect to any individual or legal entity having claim against the District, whether or not the individual or legal entity has notice of the pledge and lien. The District is obligated to set aside the revenue derived from the Special Real Property Tax in a separate debt service fund (the "Special Tax Fund") to be maintained separate from other funds of the District.

The District's Special Real Property Tax rate is set such that the amount of Special Real Property Tax collected and deposited to the Special Tax Fund will be sufficient to cover all debt service payments on the Parity Bonds during the current Fiscal Year. Real property taxes are due in semi-annual equal installments on March 31 and September 15 of each year. Special Real Property Tax receipts are to be used to pay the District's fixed-rate debt on June 1 and December 1, and the variable-rate debt when required throughout the year. Funds collected in the September 15 collection period are retained in the Special Tax Fund into the next Fiscal Year to make the December 1 debt service payment and to partially fund the June 1 debt service requirement. If necessary, the balance of the June 1 debt service payment is funded with collections from the Special Real Property Tax collections due on March 31.

The District levies its real property tax pursuant to D.C. Official Code § 47-811. The Home Rule Act requires that the Council provide in each annual budget sufficient funds to pay the principal of and interest on general obligation bonds and notes issued by the District under the Home Rule Act. There is no limitation in the Home Rule Act on the amount or rate of real property tax levies. The Special Real Property Tax pledged to the payment of the Parity Bonds is authorized by the Home Rule Act and levied pursuant to the Bond Act. The Special Real Property Tax is collected at the same time as the real property tax.

For a description of the District's real property classes, tax rates, including the Special Real Property Tax rates, and the setting thereof, assessed valuations, tax levies and collections, and real property tax accounts receivables, see Part 2, "FINANCIAL INFORMATION – Summary of General Fund Revenues – *Property Taxes*."

***Special Tax Fund***. The District has established and segregated the Special Tax Fund for the benefit of the holders of the Parity Bonds. The District is required to deposit the Special Real Property Tax receipts into the Special Tax Fund to pay principal of, and interest, on the Parity Bonds coming due each year. The District also may deposit funds other than the Special Real Property Tax receipts into the Special Tax Fund. From and after the deposit thereof, such moneys, including investment income thereon, are pledged to the payment of the Parity Bonds, and may not be used for any other purpose until the principal of and interest on the Parity Bonds have been paid in full when due or provided for, subject to certain other provisions described below. To the extent that the deposit of all or a portion of the Special Real Property Tax receipts required to be deposited annually is satisfied by the deposit of other funds, then an equal amount of the Special Real Property Tax receipts subsequently received shall be released from the lien and security interest and used to reimburse the General Fund (discussed herein) or other fund of the District from which such funds were received.

The Bond Act provides a mechanism to transfer excess funds on deposit in the Special Tax Fund. Upon the execution of a Certificate of the Mayor (or authorized delegate), such excess funds can either be transferred to the General Fund or used to refund outstanding debt. Such excess amounts are released from the lien and security interest of the holders of the Parity Bonds.

Under the Bond Act, the Mayor provides a certificate to the Council that includes the amount required in each real property tax year (which is the same as the District's Fiscal Year, October 1-September 30) to pay the principal of, and interest on, any Parity Bonds coming due for any reason during such real property tax year. The amount certified, less any funds on deposit in the Special Tax Fund, equals the special tax requirement for such real property tax year. The District reserves the right to satisfy all or a portion of such special tax requirement by setting aside and depositing into the Special Tax Fund at any time any funds of the District not otherwise legally committed. Any such deposit shall be irrevocably dedicated and pledged to the payment of principal of, and interest, on any Parity Bonds then outstanding.

Pursuant to the Bond Act and the Bond Issuance Certificate, the Mayor has provided that funds on deposit in the Special Tax Fund shall be used to pay principal of, and interest on, the Parity Bonds when due. In the event that sufficient moneys are not on deposit in the Special Tax Fund to pay principal of and interest on the Parity Bonds when due, then, pursuant to the Home Rule Act and the Bond Act, the Mayor is required to use any funds of the District not otherwise legally committed to provide for such payment.

***Collection Agreement***. The District has entered into a collection contract (the "Collection Agreement") with Wells Fargo Bank, N.A., as collection agent and temporary custodian of the Special Real Property Taxes (the "Collection Agent"). The Collection Agreement provides that all real property tax payments (of which the Special Real Property Tax is a component) are to be collected by the Collection Agent, acting for and on behalf of the District. The Collection Agreement provides that the Collection Agent shall calculate the portion of real property tax payments that are allocable to the real property tax and the Special Real Property Tax, segregate and transfer the Special Real Property Tax receipts into a separate account held by U.S. Bank National Association, as custodian ("Custodian"). The Custodian, from such separate account, pays on a weekly basis to Wells Fargo Bank, N.A., as the Escrow Agent, the amount designated in writing by the District as necessary for the payment of the principal of and interest on the Bonds.

***Escrow Agreement***. The District has entered into an escrow agent, registrar and paying agent agreement (the "Escrow Agreement") with Wells Fargo Bank, N.A., to hold and apply the Special Real Property Tax for the payment of debt service on the Parity Bonds. The Escrow Agreement provides that the Escrow Agent is acting solely as agent to the District and owes no fiduciary duty to any other person, including the bondholders, as a result of such agreement.

***Investment of the Special Tax Fund***. Moneys in the Special Tax Fund are to be invested only in (1) direct obligations of, or obligations unconditionally guaranteed by, the United States, (2) obligations issued or guaranteed by agencies or instrumentalities of the United States, (3) certificates of deposit in banks, trust companies and savings and loan associations fully and continuously secured by obligations specified in (1) and/or (2) above, which shall at all times have a market value (exclusive of accrued interest) at least equal to the value at maturity of the deposit so secured, (4) repurchase agreements with banks, savings and loan associations and trust companies and government bond primary dealers reporting to the Federal Reserve Bank of New York continuously secured or collateralized by obligations described in (1) or (2) above, which shall have a market value at all times at least equal to the principal amount of such repurchase agreements, provided such security or collateral is held by a trustee as titleholder, (5) deposits in accounts with banks, trust companies, national banking associations or savings and loan associations, provided that such deposits are fully insured by the United States or an agency thereof, and (6) money market funds consisting of investments specified in (1) and/or (2) above, including any such funds of the Escrow Agent. All such investments, and any investment income thereon, shall be held in the Special Tax Fund for the benefit of holders of the Parity Bonds. The District has reserved the right to change the eligible investments.

**Income Tax Secured Bond Authorization Act**

The Income Tax Secured Bond Authorization Act of 2008 (D.C. Law 17-254), as amended, (the "Income Tax Bond Act") authorizes the District to issue income tax secured revenue bonds (the "Income Tax Bonds") to finance some or all of the capital projects in the District's on-going capital improvements program. Income Tax Bonds are secured by a pledge of the revenues generated by the individual income tax and business franchise taxes imposed by the District (the "Income Tax Revenues"), which are paid directly to and collected by a collection agent. After transfers in April, May and June of each year by the collection agent to the trustee for the Income Tax Bonds of amounts needed in the upcoming Fiscal Year to pay debt service on such bonds, all remaining income tax proceeds are released to the District. The holders of any Income Tax Bonds have a first lien on and a pledge of Income Tax Revenues superior to that of any other person, including the holders of Parity Bonds.

**Additional Debt**

The District may issue additional Parity Bonds in the future. See "ANNUAL DEBT SERVICE SCHEDULE – Expected Financings" and Part 2, "FISCAL YEAR 2015 APPROVED BUDGET AND FINANCIAL PLAN – Capital Budgeting and Financing" and "FISCAL YEAR 2016 PROPOSED BUDGET AND FINANCIAL PLAN – Capital Budgeting and Financing" for descriptions of the District's capital funding plans. The Home Rule Act (which has also been applied to Income Tax Bonds by District statute) provides that additional Parity Bonds (other than refunding bonds) and Income Tax Bonds are not legally permitted to be issued if, at the time the additional Parity Bonds or Income Tax Bonds are to be issued, such issuance would cause the debt service in any Fiscal Year on the aggregate amounts of the outstanding Parity Bonds, Income Tax Bonds, capital project loans from the Treasury and the additional bonds proposed to be issued to exceed 17% of local-source District revenues (less certain special revenue categories) that the Mayor estimates and the District of Columbia Auditor certifies are expected to be received in the Fiscal Year in which the additional bonds are to be issued. There are currently no outstanding capital project loans from the Treasury. See Part 2, "INDEBTEDNESS – Summary of Statutory Debt Provisions," for a description of the method of calculation of the District's debt limit. For Fiscal Year 2015, total debt service on the District's outstanding Parity Bonds and Income Tax Bonds is approximately 9.1% of local-source District revenues.

**Statutory Debt Limitations**

In 2009, the District passed the Limitation on Borrowing and Establishment of the Operating Cash Reserve Act of 2008, effective March 25, 2009, as amended (D.C. Law 17-360; D.C. Official Code §47-334 et seq.) (the "Debt Ceiling Act"), which imposes a further limit on the issuance of any District general obligation bonds, Treasury capital-project loans, tax-supported revenue bonds, notes or other debt instruments secured by revenues derived from taxes, fees, or other general revenues of the District, or its agencies and authorities, pursuant to the District's power to tax and impose fees, including TIF Bonds and PILOT Notes (as hereinafter defined), certificates of participation and lease purchase financing obligations (collectively, with the exceptions noted in the Debt Ceiling Act, "Tax-Supported Debt"), but excluding revenue bonds, notes, or other debt instruments issued for the purpose of funding water and sewer facilities, as described in section 490(a) of the Home Rule Act, and bonds, notes, or other debt instruments paid or secured by revenues from the Master Settlement Agreement with tobacco companies, federal grants, or revenues from the operation of public enterprises, so long as those enterprises are fully self-supporting, if such issuance would result in total debt service in the Fiscal Year of issuance, or any of the five succeeding Fiscal Years, on all outstanding Tax-Supported Debt exceeding 12% of annual District General Fund expenditures and transfers in any applicable Fiscal Year, as contained in the most recently enacted District budget (the "Debt Ceiling").

Following the issuance of the Bonds, the District will have approximately $9.5 billion of Tax-Supported Debt outstanding, the debt service on which would produce Debt Ceiling percentage of approximately 9.93% in Fiscal Year 2015 (in relation to the 12% limit), which would comply with the Debt Ceiling Act. For more information on the projected Debt Ceiling percentages for Fiscal Years 2015-2019, see Part 2, "INDEBTEDNESS – Summary of Statutory Debt Provisions" and Table 31 therein.

## Defeasance

If the Mayor deposits with an escrow agent, in a separate defeasance escrow account held in trust for the holders of the Bonds, sufficient moneys or direct obligations of the United States, the principal of and interest on which, when due and payable, would provide sufficient moneys to pay the principal of and interest on the Bonds to be defeased when due and payable, whether at maturity or prior redemption, and delivers to such escrow agent an irrevocable letter of instruction to apply such deposit for the payment of the principal of, and interest on, the Bonds to be defeased as they become due and payable, such Bonds would be considered paid and no longer outstanding for purposes of the Bond Act and would be secured solely by such defeasance escrow account.

## Remedies of the Holder of the Bonds

Under the Bond Act, the District and its Mayor are required to carry out any agreement with or for the benefit of bond or note owners, including, among other things, (1) requiring the collection and deposit of the Special Real Property Tax, (2) enforcing the security interest of the holders of the Bonds in the funds derived from the Special Real Property Tax, and (3) ordering payment of the Bonds from funds of the District not otherwise legally committed or, in the absence thereof, ordering the District and its Mayor to take all lawful action to obtain such funds. The Bond Act also provides that if there is an event of default, the bond or note holders may file a lawsuit to enforce their rights or to enjoin any acts that may be unlawful or in violation of such rights.

Under existing federal bankruptcy law, the District is not identified as an entity that is eligible to file a petition for an adjustment of debts under Chapter 9 of the United States Bankruptcy Code.

# TAX MATTERS

## Federal Income Taxation

In the opinion of Venable LLP, Bond Counsel, under existing law, assuming continuous compliance by the District with its covenants to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") as more fully described below, interest on the Bonds (a) is excludable from gross income for Federal income tax purposes, and (b) is not an enumerated item of tax preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the Federal alternative minimum tax imposed on corporations.

The provisions of the Code include several restrictions that must be met simultaneously with or subsequent to the delivery or issuance of the Bonds, some of which must be complied with throughout the term of the Bonds, in order for the interest on the Bonds to be and remain excludable from gross income for Federal income tax purposes. Such restrictions include, among other things, limitations on the yield of investments acquired with gross proceeds of the Bonds and the periodic payment to the United States of specified portions of arbitrage profit derived from such investments.

In order to comply with the requirements of the Code, the District has adopted resolutions and will execute and deliver a Tax Certificate and Compliance Agreement ("Tax Agreement") on the date of delivery of the Bonds. The covenants and agreements in the Tax Agreement are designed to satisfy the requirements of Section 103 and Sections 141 through 150, inclusive, of the Code, and the income tax regulations issued thereunder. In the opinion of Bond Counsel, the covenants and agreements in the Tax Agreement are sufficient to meet the requirements of Section 103 and Sections 141 through 150 of the Code (to the extent applicable to the Bonds). However, Bond Counsel assumes no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for Federal income tax purposes retroactively to the date of issue.

Interest on the Bonds may also be included with the "dividend equivalent amount" for purposes of determining the branch profits tax imposed by the Code on certain foreign corporations conducting a trade or business in the United States. Other Federal income tax consequences may arise from ownership of the Bonds, and in connection therewith, attention is directed to the following provisions of the Code: (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Bonds, (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (c) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on obligations such as the Bonds, and (d) for S corporations having subchapter C earnings and profits, the receipt of certain amounts of passive investment income, which includes interest on the Bonds, may result in the imposition of income tax on such passive investment income and, in some cases, loss of S corporation status. The foregoing is only a general summary of certain provisions of the Code and does not purport to be complete; prospective purchasers and holders of the Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

A Bond (a "Premium Bond") will be considered to have been issued at a premium if, and to the extent that, the holder's tax basis in the Bond exceeds the amount payable at maturity. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each of the Premium Bonds. The holder of such a Premium Bond will be required to reduce its tax basis in the Premium Bond for purposes of determining gain or loss upon the sale or other disposition of the Premium Bond by the amount of amortizable bond premium that accrues during the period of ownership. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income from a Premium Bond for determining various other tax consequences of owning the Premium Bond. No deduction (or other tax benefit) is allowable in respect of any amount of amortizable bond premium on the Premium Bonds. Holders of Premium Bonds should consult their tax advisors with respect to the determination and treatment of bond premium for Federal income tax purposes.

The Internal Revenue Service (the "Service") has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for Federal income tax purposes. If the Service does audit the Bonds, under current Service procedures, the Service will treat the District as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to participate in the audit process.

Interest paid on Bonds is subject to information reporting for Federal income tax purposes in a manner similar to interest paid on taxable obligations. This reporting requirement does not in and of itself affect or alter the excludability of such interest from gross income for Federal tax purposes or any other Federal tax consequences of purchasing, holding or selling tax-exempt obligations.

Legislative proposals presently before Congress or that are introduced after issuance and delivery of the Bonds, if enacted, could alter or amend one or more of the federal tax matters referred to above and/or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that any such proposal would not apply to

Bonds issued prior to the enactment of such proposal. Accordingly, prospective purchasers of the Bonds should consult with their tax advisors as to the status and potential effect of such proposals.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete; holders of the Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

**State and Local Taxation**

In the opinion of Bond Counsel, under existing law of the District, the Bonds and interest on the Bonds are exempt from District taxation, except for estate, inheritance and gift taxes. Interest on the Bonds may be subject to state or local income taxes in jurisdictions other than the District under applicable state or local tax laws. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the state and local tax consequences of ownership of the Bonds, including the tax status of the Bonds and the interest payable on such obligations, in a particular state or local jurisdiction other than the District.

## FINANCIAL ADVISORS

Public Resources Advisory Group, Inc., New York, New York, and First Southwest Company, LLC, Dallas, Texas, serve as financial advisors to the District for debt management and certain other financial matters (together, the "Financial Advisors"). The Financial Advisors have provided certain services to the District in connection with the issuance of the Bonds and have assisted in the preparation of this Official Statement. The Financial Advisors have not undertaken to make an independent verification of, or to assume responsibility for, the accuracy, completeness or fairness of the information contained in the Official Statement.

## LEGAL INVESTMENT IN DISTRICT OBLIGATIONS

Section 486 of the Home Rule Act (D.C. Official Code § 1-204.86) provides that, notwithstanding any restriction on the investment of funds by fiduciaries contained in any other District law, domestic insurance associations, executors, administrators, guardians, trustees and other fiduciaries within the District of Columbia may legally invest any sinking funds, moneys, trust funds or other funds belonging to them or under or within their control in any bond issued in accordance with the Home Rule Act. Section 486 of the Home Rule Act also provides that all federal building and loan associations and federal savings and loan associations and banks, trust companies, building and loan associations and savings and loan associations, domiciled in the District of Columbia, may purchase, sell, underwrite, and deal in, for their own account or for the account of others, all bonds issued in accordance with the Home Rule Act.

## LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Venable LLP, Washington, D.C., Bond Counsel to the District. A complete copy of the proposed form of Bond Counsel opinion is set forth as APPENDIX A hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed on for the District by the Office of the Attorney General for the District of Columbia. Hawkins Delafield & Wood LLP, Washington, D.C., Disclosure Counsel to the District, will deliver an opinion to the District and the Underwriters regarding certain matters. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Squire Patton Boggs (US) LLP, Washington, D.C., and Graves, Horton, Askew & Johns, LLC, Washington, D.C.

## CONTINUING DISCLOSURE

The District will undertake in a Continuing Disclosure Agreement to assist the Underwriters in complying with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the SEC, by providing annual financial information, operating data, and event notices required by the Rule. As described in APPENDIX C, such undertaking requires the District to provide only limited information at specified times. DAC is disclosure dissemination agent for the District. The District's continuing disclosure filings since July 2009 are available at www.emma.msrb.org.

The District filed a notice of a rating upgrade by S&P (as defined herein) of Assured Guaranty Ltd. ("Assured") dated March 18, 2014, which affected the insured ratings on certain bonds issued by the District and insured by Assured, but failed to include the Mandarin Hotel TIF Bonds among the bonds identified in the notice filing. The notice failure with respect to the Mandarin Hotel TIF Bonds insured by Assured was cured by the District on July 17, 2014.

## LITIGATION

There is no litigation pending in any court or, to the knowledge of the Office of the Attorney General for the District of Columbia, threatened, which may have the effect of restraining or enjoining the issuance, delivery or payment of the Bonds or the performance of the obligations of the District or the Mayor under the Bonds or the Bond Act or which in any way contests or may call into question the validity or enforceability of: (a) the Bonds or the pledge of the District's full faith and credit for their payment, or (b) the Bond Act or the obligations of the District or the Mayor thereunder.

There is no litigation pending in any court, or to the knowledge of the Office of the Attorney General for the District of Columbia, threatened, which would have a material adverse impact on the District's ability to repay the Bonds or the District's long-term financial condition.

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Certain of such matters could have a programmatic or budgetary impact on the District, including, but not limited to, (i) the United Medical Center matter described in Part 2, "FINANCIAL INFORMATION – Summary of General Fund Expenditures – *Human Support Services*," (ii) the D.C. Association of Chartered Public Schools matter described in Part 2, "FINANCIAL INFORMATION – Summary of General Fund Expenditures – *Public Education*," and (iii) the firefighter overtime arbitration described in Part 2, "FINANCIAL INFORMATION – Summary of General Fund Expenditures – *Public Safety and Justice*."

## RATINGS

Fitch Ratings, Inc. ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Ratings Services ("S&P") have assigned ratings of "AA," "Aa1," and "AA," respectively, to the Bonds, and the outlook for each such rating is "stable." A rating, including any related outlook with respect to potential changes in such rating, reflects only the view of the rating agency assigning such rating and is not a recommendation to buy, sell or hold the Bonds. An explanation of the procedure and methodology used by each rating agency and the significance of the ratings may be obtained from Fitch, One State Street Plaza, New York, New York; Moody's, 7 World Trade Center, New York, New York; and S&P, 55 Water Street, New York, New York. Such ratings may be changed at any time and no assurance can be given that they will not be revised, downgraded, or withdrawn entirely by any such rating agencies. Any such downgrade, revision, or withdrawal of a rating may have an adverse effect on the market price of or market for the Bonds.

## UNDERWRITING

The underwriters identified on the cover of this Official Statement (the "Underwriters") have agreed to purchase the Bonds from the District at an aggregate price of $607,099,413.72, reflecting the aggregate principal amount of the Bonds of $534,190,000.00, plus original issue premium of $74,659,610.05, less the Underwriters' discount of $1,750,196.33. The obligations of the Underwriters to purchase the Bonds are subject to certain terms and conditions set forth in the Bond Purchase Agreement relating to the Bonds dated June 4, 2015, among the District and the Underwriters. The Bonds may be offered and sold to certain dealers, banks and others at prices lower than the initial public offering prices, and such initial offering prices may be changed from time to time, by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the District, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Citigroup Global Markets Inc., an Underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Service Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

Siebert Brandford Shank & Co., L.L.C. has entered into an agreement with Credit Suisse Securities (USA) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to such agreement, if applicable to the Bonds, Credit Suisse Securities (USA) will purchase Bonds at the original issue price less the selling concession with respect to any Bonds that Credit Suisse Securities (USA) sells. Siebert Brandford Shank & Co., L.L.C. will share a portion of its underwriting compensation with Credit Suisse Securities (USA) as compensation for their selling efforts with respect to the Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA, one of the Underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliate, Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. In addition to serving as an Underwriter for the Bonds, WFBNA is also acting as Registrar, Escrow Agent, and Paying Agent.

Loop Capital Markets LLC ("Loop Capital Markets"), one of the Underwriters of the Bonds, has entered into a distribution agreement (the "Loop Distribution Agreement") with Deutsche Bank Securities Inc. ("DBS") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Loop Distribution Agreement, DBS will purchase the Bonds from Loop Capital Markets at the original issue prices less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

## CERTAIN RELATIONSHIPS

Hawkins Delafield & Wood LLP, Washington, D.C., Disclosure Counsel to the District, is also Bond and Disclosure Counsel to the Washington Metropolitan Area Transit Authority.

## CHANGES FROM THE PRELIMINARY OFFICIAL STATEMENT

In addition to updating Part 1 of this Official Statement to reflect the pricing information for the Bonds, including the interest rates, maturities, and redemption provisions, and the Annual Debt Service Schedule, the following are updates to Part 2 of the Preliminary Official Statement:

- In "BUDGETING AND FINANCIAL PROCEDURES – General," the corresponding paragraphs under such caption are replaced in their entirety by the following paragraphs:

***Local Budget Autonomy Legislation***. The Local Budget Autonomy Amendment Act of 2012, adopted by the District Council on December 18, 2012, was subsequently approved by the District voters (the "Budget Autonomy Act"). The Budget Autonomy Act would grant the District, effective January 1, 2014, the right to enact and appropriate its local funds budget without the need for affirmative approval by the United States Congress and to establish the District's Fiscal Year.

On January 30, 2014, the U.S. Government Accountability Office issued an opinion stating that the Budget Autonomy Act had no legal effect and that it would violate federal laws, including both the Federal ADA and the Budget and Accounting Act of 1921, 31 U.S.C. § 1108. The District's Attorney General also issued an opinion questioning the legal validity of the Budget Autonomy Act. On April 11, 2014, Mayor Vincent Gray, then Mayor for the District, and the CFO sent separate letters to the Council Chairman stating that the Budget Autonomy Act had no legal validity and that its implementation could cause District employees to be in violation of federal statutes, particularly the Federal ADA. On April 17, 2014, the Council filed a lawsuit in the Superior Court of the District of Columbia (the "Superior Court") seeking a declaratory judgment that the Budget Autonomy Act was valid, as well as an injunction requiring the Mayor and the CFO to comply with the Budget Autonomy Act. The lawsuit was removed to the U.S. District Court for the District of Columbia (the "District Court"), and oral arguments were presented on May 14, 2014. The District Court issued a decision in which it concluded that the Budget Autonomy Act was unlawful and permanently enjoined enforcement of such act. The Council filed an appeal to the U.S. Court of Appeals for the District of Columbia (the "Court of Appeals"). On March 23, 2015, Mayor Muriel Bowser, the current Mayor for the District, filed a motion to dismiss the lawsuit, alleging, among other things, that the claims involving the CFO were not ripe for judicial intervention, and that the claims between the Mayor and the Council were moot. The Council and the CFO filed separate responses to the Mayor's motion. On May 27, 2015, the Court of Appeals issued a summary order granting the Mayor's motion to dismiss, vacating the judgment from the District Court, and ordering the District Court to remand the case to the Superior Court. The Court of Appeals did not rule on the merits of the suit. The Budget Autonomy Act has no effect on the Fiscal Year 2015 Approved Budget, but further litigation on the merits of the Budget Autonomy Act is anticipated.

***Federal Appropriations for Fiscal Years 2015 and 2016***. Generally, the District cannot obligate or expend District funds without a federal appropriation. On September 19, 2014, the President signed the Continuing Appropriations Resolution, 2015 (Pub. L. No. 113-164) (the "FY15 CR"), which provided appropriations for the federal government and the District (federal portion) through December 11, 2014 and further authorized the District to spend its local budget at the level set forth in the Fiscal Year 2015 Budget Request Act of 2014 ("FY15 BRA") as submitted to Congress, as modified as of the date of the FY15 CR. Subsequently, the President signed the Consolidated and Further Continuing Appropriations Act, 2015 (Pub. L. No. 113-235) ("FY15 Appropriations Act") that provided appropriations for the District for Fiscal Year 2015, and further authorized the District to spend its local budget at the level set forth in the Fiscal Year 2016 Budget Request Act of 2015 ("FY16 BRA") as submitted to Congress, as modified as of the beginning of a period in which neither a continuing resolution applicable to the District nor a Congressional appropriations bill for the District is in effect. However, if the FY16 BRA were submitted to Congress only under the Budget Autonomy Act process in lieu of the Home Rule Act practice, it is unclear whether, if Congress were to fail to appropriate the District's local funds, either directly or through a continuing resolution, the District would have authority to spend its local funds for Fiscal Year 2016. *See the new paragraph immediately below.* As noted in the second paragraph under "BUDGETING AND FINANCIAL PROCEDURES – General," the District cannot spend money, including locally generated funds, without Congressional appropriations or authorization, except for certain designated purposes, including, among other things, the payment of debt service on Parity Bonds. Accordingly, the final resolution of this budget matter will not impact the authority of the District to pay debt service on the Parity Bonds (or other outstanding indebtedness).

- In "FISCAL YEAR 2016 PROPOSED BUDGET AND FINANCIAL PLAN," the following paragraph replaces in its entirety the first paragraph under such caption:

The Mayor submitted the proposed Fiscal Year 2016 Budget and Financial Plan, including both the operating and capital budgets, to the Council on April 2, 2015 (the "Fiscal Year 2016 Proposed Budget"). The Council unanimously approved the FY16 BRA and the Fiscal Year 2016 Budget Support Act of 2015 (the "FY16 BSA") on the first vote on May 27, 2015. The second votes on these two bills are scheduled for June 10, 2015 and June 16, 2015, respectively. It is anticipated that the second vote on the FY16 BRA will not materially change the terms of the budget that passed the Council's first vote. There can be no assurance at this point that after the Council's second vote the Mayor will submit the FY16 BRA to the President as contemplated by the Home Rule Act practice. Instead, the Mayor may choose to submit the FY16 BRA to Congress under the provisions of the Budget Autonomy Act, which does not require affirmative Congressional action. As stated above, unless Congress affirmatively approved the FY16 BRA (or otherwise affirmatively acted), there could be a question whether the District had an appropriated budget for Fiscal Year 2016 and whether the District would have authority to spend its local funds during Fiscal Year 2016. Any such lack of District authority to spend local funds would not affect the payment of debt service on Parity Bonds. See "BUDGETING AND FINANCIAL PROCEDURES – General – *Federal Appropriations for Fiscal Years 2015 and 2016*."

- In "INDEPENDENT ENTITIES – *Washington Metropolitan Area Transit Authority*," the figure of $227.5 million is replaced with $143.75 million in the first sentence of the penultimate paragraph under such caption and the following sentences are added to the end of such paragraph:

On June 2, 2015, WMATA notified the Contributing Jurisdictions that it intends to issue an additional $220 million of debt. In addition, the federal government approved WMATA's early retirement of approximately 200 rail cars in conjunction with WMATA's plans to expend $431 million to acquire 220 new rail cars; however, the federal government stated that WMATA must pay the federal government $50 million of interest owed with regard to the acquisition of the cars to be replaced. It is not clear at this time whether the District would be asked to provide additional funds (or if so, how much) to pay for the debt to be issued by WMATA or to assist in making WMATA's interest payments to the federal government.

- In "INDEBTEDNESS – Other Capital Funding," the corresponding paragraph under such caption is replaced in its entirety by the following paragraph:

***Underground Electric Power Lines***. The District expects to participate in the financing of undergrounding of a portion of the electric power lines located in the District of Columbia. The electric power line undergrounding bonds are authorized to be issued in a par amount not to exceed $375 million. The electric power line undergrounding bonds will not be paid from District funds, but, instead, from revenues generated from a nonbypassable electric surcharge (the "Charge") billed to and collected from electric customers by the public utility (currently Pepco Holdings Inc. ("Pepco")), as servicing agent to the District. The Charge must be approved by the District's Public Service Commission ("PSC") through a financing order ("Financing Order") prior to billing and collection. As such, the obligations arising from this financing are not the District's debt and will not be subject to the Debt Ceiling. On November 24, 2014, the PSC issued the Financing Order that, among other things, approved the power line undergrounding plan, the Charge, and the allocation of the Charge to different classes of Pepco's customers. Subsequently, the Apartment & Office Building Association ("AOBA") filed an appeal in the D.C. Court of Appeals contesting the Charge and the plan. There is no indication at this time as to when the court will decide this case, or a date certain to commence the debt issue to finance the undergrounding of the power lines because of the pending appeal. On April 30, 2014, the Chicago-based Exelon Corporation ("Exelon") announced its preliminary agreement to purchase Pepco. In September 2014, Pepco shareholders voted to approve the acquisition by Exelon. There is no indication from Pepco or Exelon that the transaction will impact the undergrounding project. As of the date hereof, the PSC has not approved the acquisition. On May 27, 2015, the Office of the Attorney General filed a post-hearing reply brief with the PSC opposing the acquisition. The FY16 BSA includes a $250,000 grant for a third-party study to evaluate the cost, benefits, and feasibility of establishing a municipally-owned public electric utility in the District. At this time, the procurement for the contractor has not commenced.

## EXECUTION OF OFFICIAL STATEMENT

This Official Statement has been approved by the District for distribution to prospective purchasers of the Bonds.

DISTRICT OF COLUMBIA

By: /s/ Jeffrey S. DeWitt
Jeffrey S. DeWitt
Chief Financial Officer

## APPENDIX A

## FORM OF APPROVING OPINION OF BOND COUNSEL

June 24, 2015

Mayor of the District of Columbia
The Wilson Building
1350 Pennsylvania Avenue, NW
Washington, D.C. 20054

Council of the District of Columbia
The Wilson Building
1350 Pennsylvania Avenue, NW
Washington, D.C. 20054

$500,000,000
District of Columbia
General Obligation Bonds, Series 2015A

and

$34,190,000
District of Columbia
General Obligation Refunding Bonds, Series 2015B

Ladies and Gentlemen:

We have acted as Bond Counsel to the District of Columbia (the "District") in connection with the issuance by the District of its $500,000,000 General Obligation Bonds, Series 2015A, dated the date hereof (the "Series 2015A Bonds") and its $34,190,000 General Obligation Refunding Bonds, Series 2015B, dated the date hereof (the "Series 2015B Bonds" and, together with the Series 2015A Bonds, the "Series 2015A-B Bonds"). We have examined the law and such certified proceedings and other documents as we deemed necessary to render this opinion.

The Series 2015A-B Bonds are issued pursuant to the provisions of, and in full compliance with, the laws of the District, in particular, the District of Columbia Home Rule Act (Pub L. No. 93-198; 87 Stat. 774; D.C. Official Code §§ 1-201.01 et seq.), as amended (the "Home Rule Act"), the General Obligation Bonds and Bond Anticipation Notes for Fiscal Years 2013-2018 Authorization Act of 2012, D.C. Law 19-231, effective March 19, 2013 (the "Bond Act") and the Fiscal Year 2015 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Approval Resolution of 2014, Resolution No. 20-687, effective November 28, 2014 (the "Authorizing Resolution" and, together with the Home Rule Act and the Bond Act, the "Authorizing Actions"), and the proceedings under the Authorizing Actions set forth in the Bond Issuance Certificate of the Mayor of the District, dated the date hereof (the "Bond Issuance Certificate"). Any capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in the Bond Issuance Certificate.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any change in law that may hereafter occur.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the District and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the District of Columbia and the federal law of the United States of America.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2015A-B Bonds.

Based on the foregoing, it is our opinion that, under existing law:

1. The District is a body politic and corporate duly created and organized and validly existing for municipal purposes under the Constitution of the United States of America and the Home Rule Act, with corporate power and authority to enter into and perform its obligations under the Bond Issuance Certificate, to issue the Series 2015A-B Bonds, and to apply the proceeds of the Series 2015A-B Bonds in the manner described in the Bond Issuance Certificate.

2. The Series 2015A-B Bonds have been duly authorized and issued in accordance with the Authorizing Actions and constitute valid and binding general obligations of the District, enforceable in accordance with their terms, to which the full faith and credit of the District is pledged for the payment of the principal of and interest on the Series 2015A-B Bonds when due.

3. The Authorizing Actions have been duly and legally adopted and constitute valid and binding obligations of the District.

4. The District is authorized and required by the Bond Act to levy and collect the special real property tax, without limitation as to rate or amount, on all locally taxable real property in the District to pay the principal of and interest on the Series 2015A-B Bonds as they become due and payable.

5. Interest on the Series 2015A-B Bonds is excludable from gross income for federal income tax purposes under existing law. It is noted that under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), there are certain requirements that must be met subsequent to the issuance of the Series 2015A-B Bonds in order for the interest on the Series 2015A-B Bonds to remain excludable from gross income for Federal income tax purposes, including restrictions that must be complied with throughout the term of the Series 2015A-B Bonds. The District has made certain representations and certain covenants regarding actions required to maintain the excludability of interest on the Series 2015A-B Bonds from gross income for federal income tax purposes. In the event of noncompliance with such representations and covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2015A-B Bonds from becoming includable in gross income for Federal income tax purposes from the date of delivery of the Series 2015A-B Bonds, regardless of the date on which the event causing such taxability occurs. It is our opinion that, assuming compliance with such representations and covenants, the interest on the Series 2015A-B Bonds will remain excludable from gross income for federal income tax purposes under the provisions of the Code.

Interest on the Series 2015A-B Bonds is not an item of tax preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations. However, in calculating corporate alternative minimum tax, a corporation is required to increase its alternative minimum taxable income by 75 percent of the amount by which its "adjusted current earnings" exceed its alternative minimum taxable income (computed without regard to this current earnings adjustment and the alternative tax net operating loss deduction). For this purpose, "adjusted current earnings" would include, among other items, interest on the Series 2015A-B Bonds. In addition, interest income on the Series 2015A-B Bonds will be includable in the applicable taxable base for the purposes of determining the branch profits tax imposed by the Code on foreign corporations engaged in a trade or business in the United States.

6. Interest on the Series 2015A-B Bonds is exempt from taxation by the District, except estate, inheritance and gift taxes.

Other than as set forth in the preceding paragraphs (5) and (6), we express no opinion regarding the federal, District or state income tax consequences arising with respect to the Series 2015A-B Bonds.

It is to be understood that the rights of the owners of the Series 2015A-B Bonds and the enforceability of the District's obligations under the Series 2015A-B Bonds and the Authorizing Actions may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Very truly yours,

## APPENDIX B

## BOOK-ENTRY-ONLY SYSTEM

The information in this APPENDIX B concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

## APPENDIX C

## FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") dated June 24, 2015, is executed and delivered by the District of Columbia (the "Issuer") in connection with the issuance and sale of the Issuer's $500,000,000 General Obligation Bonds, Series 2015A, and $34,190,000 General Obligation Refunding Bonds, Series 2015B (collectively, the "Bonds"), issued pursuant to the Authorizing Acts (as defined in the Official Statement). Capitalized terms used in this Agreement which are not otherwise defined in the Official Statement or the Authorizing Acts shall have the respective meanings specified above or in Article IV hereof.

### ARTICLE I

### The Undertaking

Section 1.1. Purpose. This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) Commencing with the fiscal year ending September 30, 2015, the Issuer shall provide to the MSRB no later than February 28, 2016, and no later than each succeeding February 28 thereafter, Annual Financial Information with respect to each fiscal year of the Issuer.

(b) The Issuer shall provide, in a timely manner, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof because not available, the Issuer shall provide Audited Financial Statements, when and if available, to the MSRB.

Section 1.4. Notice Events. (a) If a Notice Event occurs, the Issuer shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, notice of such Notice Event to (i) the MSRB and (ii) the Escrow Agent.

(b) Any notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) Each Notice Event notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Notice Event notice relates or, if the Notice Event notice relates to all bond issues of the Issuer including the Bonds, such Notice Event notice need only include the CUSIP number of the Issuer.

Section 1.5. Additional Information. Nothing in this Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Notice Event hereunder, in addition to that which is required by this Agreement. If the Issuer chooses to include any information in any Annual Financial Information or Notice Event notice in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

Section 1.6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Issuer under such laws.

Section 1.7. Previous Non-Compliance. The Issuer represents that, except as disclosed in the Official Statement, in the previous five years it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

## ARTICLE II

## Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, www.emma.msrb.org), or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Notice Events pursuant to Section 1.4 hereof.

Section 2.2. Submission of Information. Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

Section 2.3. Notice Events. Each notice of a Notice Event hereunder shall be captioned "Notice Event" and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4. Dissemination Agents. The Issuer may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the Issuer under this Agreement, and revoke or modify any such designation.

Section 2.5. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 2.6. Fiscal Year. (a) The Issuer's current fiscal year begins October 1 and ends on September 30, and the Issuer shall promptly notify (i) the MSRB and (ii) the Escrow Agent of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

## ARTICLE III

### Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The Issuer's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Agreement, or any provision hereof, shall be null and void in the event that the Issuer (1) receives an opinion of Counsel to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments to or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) the Issuer shall have received an opinion of Counsel or a determination by an entity, in each case unaffiliated with the Issuer (such as bond counsel or the Trustee), to the effect that the amendment does not materially impair the interests of the holders of the Bonds, and (5) the Issuer shall have delivered copies of such opinion(s) and amendment to the MSRB.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Issuer shall have received an opinion of Counsel to the effect that performance by the Issuer under this Agreement as so amended will not result in a violation of the Rule, and (3) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(c) This Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) the Issuer shall have received an opinion of Counsel to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of staff, of the SEC, and (2) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the Issuer in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the Issuer to comply with the provisions of this Agreement shall be enforceable by any holder of Outstanding Bonds. The holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the Issuer to perform in accordance with this Agreement shall not constitute an event of default under the Authorizing Acts, and the rights and remedies provided by the Authorizing Acts upon the occurrence of an event of default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the District of Columbia, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the District of Columbia; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

## ARTICLE IV

## Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, (i) collectively, updated versions of the following financial information and operating data contained in the Official Statement, for each fiscal year of the Issuer, as follows:

(a) Audited Financial Statements, if available, or Unaudited Financial Statements for the immediately preceding fiscal year; and

(b) the Issuer's Comprehensive Annual Financial Report, if any is prepared, for the immediately preceding fiscal year, and if not prepared, such annual financial information as the Issuer is advised by disclosure counsel or bond counsel would satisfy the definition of "annual financial information" in the Rule; and

(ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(d) and (e) of this Agreement.

Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the Issuer, audited by such auditor as selected by the Inspector General or as shall otherwise then be required or permitted by the Issuer or federal law or the Authorizing Acts. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Sections 3.2(a) and (e) hereof, the Issuer may from time to time, if required by federal or District of Columbia legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific federal or District of Columbia law or regulation describing such accounting principles, or other description thereof.

(3) "Counsel" means any nationally recognized bond counsel or counsel expert in federal securities laws.

(4) "GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(5) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(6) "Notice Event" means any of the following events with respect to the Bonds, whether relating to the Issuer or otherwise:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to rights of Bondholders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event;

(xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

With regard to the reportable event described in subsection (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(7) "Official Statement" means the Official Statement dated June 4, 2015, of the Issuer relating to the Bonds.

(8) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(9) "SEC" means the United States Securities and Exchange Commission.

(10) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

DISTRICT OF COLUMBIA

By: ______________________________________
Jeffrey Barnette
Deputy Chief Financial Officer and Treasurer

**PART 2**

**of the**

**OFFICIAL STATEMENT**

**of the**

**DISTRICT OF COLUMBIA**

**relating to its**

**GENERAL OBLIGATION BONDS,**
**SERIES 2015A**

**AND**

**GENERAL OBLIGATION REFUNDING BONDS,**
**SERIES 2015B**

*As described in Part 1, the District identified certain events that occurred since the date of the Preliminary Official Statement that resulted in updates to the disclosure in Parts 1 and 2. Such events that resulted in updates to the disclosure in Part 2 are described in Part 1 under the caption "CHANGES FROM THE PRELIMINARY OFFICIAL STATEMENT" and are not otherwise included herein. All additional updates to this Part 2 from the Preliminary Official Statement that might be considered material (including a revised Table 33) can be found under the caption "INDEBTEDNESS." Such updates are based on (i) information available to the District as of June 1, 2015 or June 2, 2015, as applicable, or (ii) calculations reflecting the issuance of the Bonds, as applicable.*

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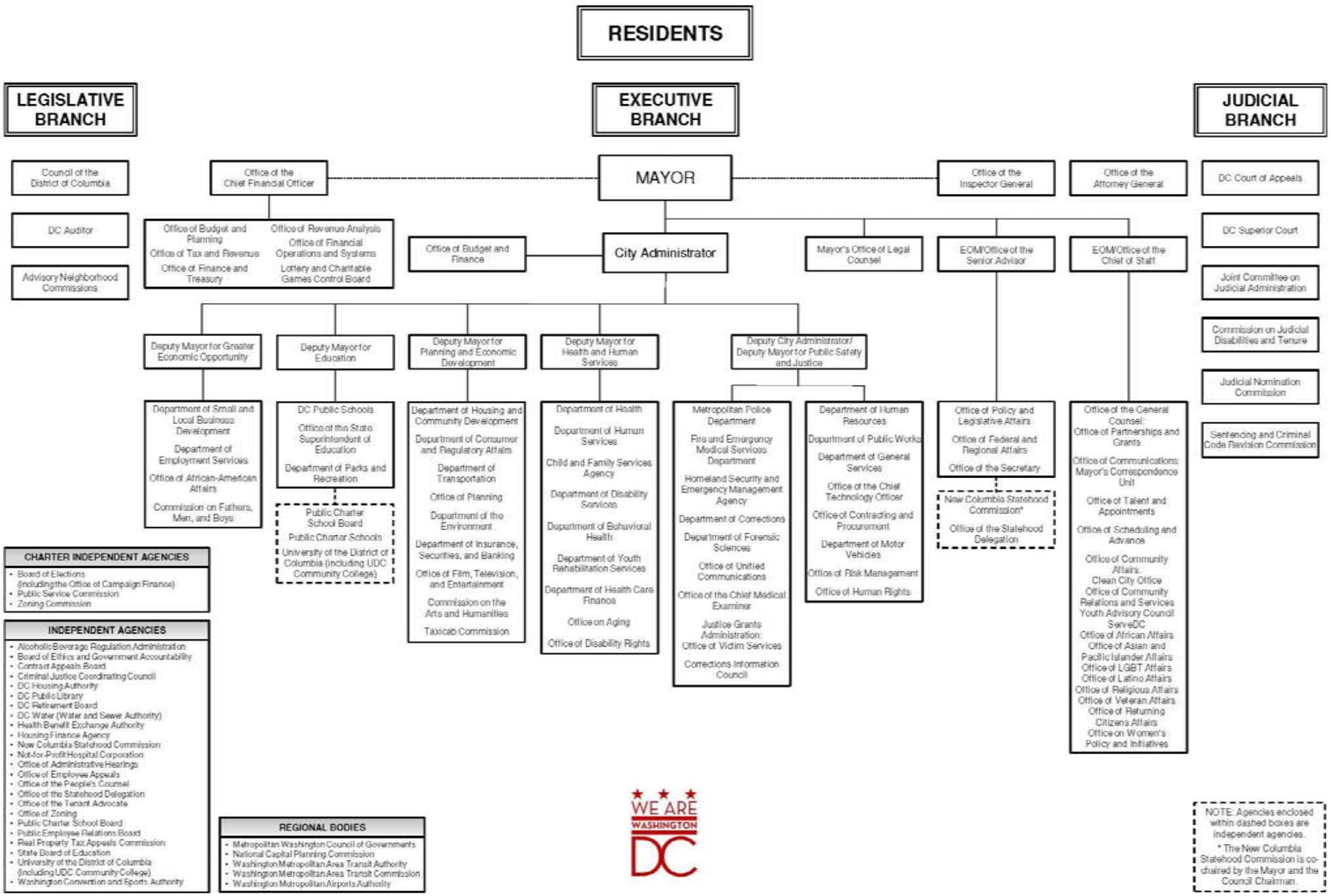
**FOR PART 2**

# GOVERNMENT OF THE DISTRICT OF COLUMBIA



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## THE DISTRICT OF COLUMBIA

### Creation and Charter

The District of Columbia was created in 1791 by act of the United States Congress (the "Congress") and Presidential proclamation and has served as the capital of the United States of America since 1800. Under Article I, Section 8 of the United States Constitution, Congress has exclusive legislative authority over the District as the Nation's Capital. Since January 2, 1975, the District has been governed in accordance with the District of Columbia Home Rule Act, Pub. L. No. 93-198, an Act of Congress signed by the President of the United States (the "President") on December 24, 1973, as amended (the "Home Rule Act"). Under the Home Rule Act, the District is governed by an elected Mayor and an elected Council. With limited exceptions, including the payment of debt service on District debt, the District may not obligate or expend funds absent annual Congressional appropriation.

The District is a unique governmental entity, combining state, county and municipal characteristics. Functions performed by the District government include public safety, police, fire, corrections, consumer and business regulatory affairs, public works (highways, streets and traffic control and sanitation), human services (health, welfare and employment assistance), leisure services (recreation and libraries), economic development (planning, zoning, urban renewal and housing), public education and general administration. The District and its instrumentalities also operate a university, a hospital, a stadium and armory complex, a convention center, a water and sewer system, a housing finance agency and a lottery.

### Organization of the District Government

***Legislative Branch***. The legislative powers granted to the District by the Home Rule Act are vested in the Council of the District of Columbia (the "Council"), which consists of 13 members elected on a staggered basis for four-year terms. The Chairman of the Council and four members are elected on an "at-large" basis and each of the eight wards of the District elects one member. Six members of the Council were elected in the general election held on November 4, 2014. A special election was held on April 28, 2015 to fill the vacancies on the Council for Wards 4 and 8, and such Council members were sworn in on May 14, 2015.

The legislative powers granted to the Council by the Home Rule Act extend to all rightful subjects of legislation within the District consistent with the United States Constitution and the Home Rule Act, and include the authority to pass laws, create and abolish any office (subject to certain protections applicable to the Office of the Chief Financial Officer and the District of Columbia Auditor pursuant to the Home Rule Act described below), agency, or instrumentality of the District, define the duties of such offices, agencies and instrumentalities, and conduct investigations into matters relating to the affairs of the District. Acts of the Council are subject to approval by the Mayor. In the event of a Mayoral veto, the Council may override the veto by a two-thirds vote. Except for emergency legislation with a limited duration, acts authorizing general obligation revenue anticipation notes and acts authorizing the renewal or refunding of bond anticipation notes, all acts of the Council are subject to a period of Congressional review before they take effect.

The power of the Council to enact certain taxes or pass other legislation is subject to certain limitations set forth in the Home Rule Act. For instance, the Council cannot enact legislation that would tax, directly or at the source, the income of any individual who is not a resident of the District, or would permit the building of structures within the District that would exceed in height above the sidewalk the width of the street, avenue, or highway in its front, increased by 20 feet. In addition, the District cannot tax federal properties.

***Judicial Branch***. The judicial power of the District is vested in a Superior Court and a Court of Appeals (together, the "Courts"). The Superior Court has jurisdiction of any civil action or other matter (at law or in equity) brought in the District of Columbia and of any criminal case under any law applicable exclusively to the District. The Superior Court has no jurisdiction over any civil or criminal matter over which a United States court has exclusive jurisdiction pursuant to an Act of Congress. The Court of Appeals has jurisdiction of appeals from the Superior Court and, to the extent provided by law, to review orders and decisions of the Mayor, the Council or any agency of the District. Generally, the President nominates judges of the Courts from a list of candidates recommended by the District of Columbia Judicial Nomination Commission and, with the advice and consent of the United States Senate, the President appoints the judges of the Courts. The federal government funds the operating and capital costs of the Courts; however, the Courts manage themselves.

***Executive Branch***. The Mayor, as the chief executive officer of the District under the Home Rule Act, is responsible for the proper execution of laws and administration of the District's affairs. Executive functions include supervision and direction of the District's administrative boards, offices and agencies, administration of the District's financial affairs through appointment of the Chief Financial Officer (the "CFO") (subject to Council approval and Congressional review), administration of personnel matters, central municipal planning, making legislative proposals to the Council, and similar matters. The Mayor also has the authority to veto legislation adopted by the Council. The Mayor is assisted in these duties by a City Administrator, who serves as the chief administrative officer of the District. The City Administrator is appointed by the Mayor and serves at the pleasure of the Mayor. Muriel Bowser was elected as Mayor in the general election held on November 4, 2014 and was sworn into office on January 2, 2015.

In addition to the City Administrator, the Mayor is assisted by a Deputy Mayor for Planning and Economic Development, a Deputy Mayor for Education, a Deputy Mayor for Health and Human Services, a Deputy Mayor for Public Safety and Justice, and a Deputy Mayor for Greater Economic Opportunity.

The Home Rule Act requires the Mayor to prepare and submit to the Council an annual budget, including, among other things, the budget for the forthcoming Fiscal Year, a multiyear plan for all agencies and all sources of funding, a multiyear capital improvement plan, a performance report comparing actual performance to goals, an issue analysis statement, and a summary of the budget for public distribution. Once the Council has approved the budget, the Mayor forwards the budget to the President for submission to Congress.

The Mayor is elected to a four-year term with no term limits. If there is a vacancy in the office of the Mayor, the Chairman of the Council serves as Acting Mayor until a special election for a new Mayor is held.

***The Attorney General for the District of Columbia***. The Attorney General for the District of Columbia (the "Attorney General") is charged to conduct all law business of the District and handle all lawsuits instituted by and against the District government. The Attorney General is also responsible for upholding the public interest and may intervene in legal proceedings on behalf of the public interest. Until recently, the Attorney General was appointed by the Mayor and confirmed by the Council. Pursuant to an amendment to the Home Rule Act, the Attorney General has become an elected official. Karl A. Racine was elected as Attorney General in the general election held on November 4, 2014 and was sworn into office on January 2, 2015.

***Office of the Chief Financial Officer***. The CFO has primary responsibility for oversight of the District's budgetary and financial records, activities and transactions, including the supervision and administration of all borrowing programs of the District for the issuance of long-term and short-term indebtedness (excluding industrial revenue bonds).

The CFO is responsible for supervising the activities of the District Treasurer, supervising and administering the District's borrowing, administering cash management, administering the District's payroll and retirement systems, governing the District's accounting policies and systems, preparing certain reports on the District's accounting and financial operations, preparing a comprehensive financial management policy for the District and preparing the financial statements and reports on the District's activities required by the Home Rule Act. The CFO also supervises and assumes responsibility for financial transactions to ensure adequate control of revenues and resources and that appropriations are not exceeded, maintains systems of accounting and internal control, supervises and assumes responsibility for levying and collecting all taxes, fees and other revenues, maintains custody of all public funds and all investments and invested funds, and assists the Inspector General of the District of Columbia (the "Inspector General") in developing internal audits of accounts, operations and records of the District. In addition, the CFO is required to prepare and submit to the Mayor, for inclusion in the annual budget of the District, annual estimates of expenditures and appropriations necessary for the operation of the Office of the Chief Financial Officer (the "Office of the CFO"). Further, the CFO must prepare annual estimates of all revenues of the District which are binding on the Mayor and the Council for purposes of preparing and submitting the annual budget. The CFO also must prepare and submit to the Mayor and the Council, and make public, quarterly re-estimates of the revenues of the District during the year.

The CFO oversees the Office of Finance and Treasury, the Office of Financial Operations and Systems, the Office of Budget and Planning, the Office of Tax and Revenue, the Office of Finance and Resource Management, the Office of Revenue Analysis and the District of Columbia Lottery and Charitable Games Control Board. Moreover, certain personnel performing financial functions in the District's various agencies (including independent agencies) report to the CFO.

The Mayor, with the advice and consent of the Council, appoints the CFO for a term of five years. Upon confirmation by the Council, the appointment is submitted to the Committees on Appropriations of the Senate and the House of Representatives, the Committee on Governmental Affairs of the Senate, and the Committee on Government Reform of the House for a 30-day period of review and comment before the appointment takes effect. The CFO may be dismissed from office for cause by the Mayor and approval of that dismissal by a two-thirds vote of the Council. Upon approval of that dismissal by the Council, notice of the dismissal must be submitted to the Committees on Appropriations of the Senate and the House, the Committee on Governmental Affairs of the Senate and the Committee on Government Reform of the House for a 30-day period of review and comment before the dismissal takes effect.

Jeffrey S. DeWitt was sworn in as the District's CFO on January 2, 2014, and his term will expire on June 30, 2017. Mr. DeWitt's term is shorter than the statutory five-year term described above, as he is completing the remainder of the term of the District's prior CFO.

***Inspector General***. The Inspector General is charged with conducting independent fiscal and management audits of District government operations, among other duties. The Inspector General must contract for an outside audit of the complete financial statements and report on the activities of the District for each Fiscal Year, and establish an annual plan for audits of District programs during the Fiscal Year. The Inspector General may issue subpoenas relating to any matter under investigation and has the right to access all necessary District records relating to an investigation. Whenever the Inspector General has reasonable grounds to believe that there has been a violation of federal or District criminal law, he or she is required to report the matter expeditiously to the Office of the United States Attorney for the District of Columbia.

The Mayor appoints the Inspector General with the advice and consent of the Council for a six-year term. The Inspector General is subject to removal only for cause by the Mayor with the advice and consent of the Council. Neither the Mayor nor the Council may revise the proposed budget for the Office of the Inspector General ("OIG"), but they may make recommendations to Congress regarding the proposed budget. On October 28, 2014, the Council approved the Mayor's nomination of Daniel W. Lucas as the new Inspector General. He was sworn into office on November 17, 2014.

***District Auditor***. The District of Columbia Auditor (the "District Auditor") is appointed for a term of six years and is responsible for an annual audit of the District's accounts and operations. The District Auditor is appointed by the Chairman of the Council, subject to the approval of a majority of the Council. The District Auditor is required to submit audit reports and recommendations to the Council, the Mayor and the Congress. The District Auditor has access to all books, accounts, records, reports, findings and all other papers, things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit. The Mayor is required to state in writing to the Council what action he or she has taken to effectuate the recommendations made in the District Auditor's reports.

The District Auditor also is required to certify the Mayor's estimate of local revenues for purposes of the general obligation bond debt limitation.

***Office of Integrity and Oversight***. In 2003, the CFO created an Office of Integrity and Oversight ("OIO") for the purpose of conducting regular audits of the Office of the CFO's operations, identifying those operational procedures and processes that need to be modified, updated or strengthened, recommending appropriate changes and monitoring the implementation of those changes. Such audits are in addition to the investigative audits conducted by the OIG, the District Auditor and the District's independent outside auditors.

**Congressional Authority**

Notwithstanding the Home Rule Act's delegation to the District of authority for self-government, Congress reserves the right to exercise its Constitutional authority as the legislature for the District by enacting legislation on any subject, whether within or without the scope of legislative power granted to the Council by the Home Rule Act, including legislation to amend or repeal any law in force in the District prior to or after enactment of the Home Rule Act and any act passed by the Council. Such legislative authority is subject to Constitutional limitations on the powers of the United States government.

The Home Rule Act provides, with exceptions for emergency legislation, acts authorizing general obligation revenue anticipation notes and acts authorizing the renewal or refunding of bond anticipation notes, that no act passed by the Council and approved either by the Mayor or through veto override by the Council shall take effect until the expiration of a period of 30 legislative days (for acts on civil matters) or 60 legislative days (for acts on criminal matters) after transmittal to Congress. During such periods, Congress and the President may disapprove an act of the Council by enacting a joint resolution of Congress approved by the President, in which event the act will not become effective. Congress, from time to time, at the request of the District, has enacted legislation waiving the legislative layover period for certain District legislation.

Disapproval of an act of the Council by Congress has occurred infrequently. Congress, however, has made revisions to the District's budget as adopted by the Council and generally has conditioned its approval of the District's budget on compliance by the District with a variety of Congressional mandates.

**The Authority**

Pursuant to the District of Columbia Financial Responsibility and Management Assistance Act of 1995, Pub. L. No. 104-8, as amended (the "Authority Act"), the District of Columbia Financial Responsibility and Management Assistance Authority (the "Authority") was established. Without repealing the District's Mayor/Council government structure, the Authority Act granted the Authority substantial powers over the financial activities and management operations of the District government during any "Control Period" and "Control Year" as defined in the Authority Act. The initial Control Period terminated on February 14, 2001 and the Authority suspended its activities on September 30, 2001. Under the provisions of the Authority Act, a new Control Period will be initiated if: (i) the Mayor seeks a U.S. Treasury advance; (ii) the District defaults with respect to any loan, bond, note or other form of borrowing issued by the District; (iii) the District fails to meet its payroll for any pay period; (iv) at the end of any quarter of any Fiscal Year, a cash deficit exists that exceeds the difference between the estimated District revenues and estimated District expenditures during the remainder of that Fiscal Year or the remainder of that Fiscal Year together with the first six months of the succeeding Fiscal Year; (v) the District fails to make required payments relating to pensions and benefits for current and former District government employees; or (vi) the District fails to make payments to any entity under an interstate compact to which the District is a signatory. If a new Control Period were to be initiated under the existing Authority Act, the Authority would be reconstituted and resume its full statutory powers unless Congress were to change the law.

**Federal Funding**

***Overview***. The federal government assumes the costs of certain District state-like functions, such as the Courts and incarceration of convicted felons, that do not appear in the District's budget. The federal government also provides revenues to the District for other functions and for certain programs, such as Medicaid, school improvements and the Tuition Assistance Grant program, which do appear in the District's budget. In Fiscal Year 2014, the District directly received federal revenues in the total aggregate amount of approximately $3.55 billion. See Table 1 herein.

The federal government also provides many services required for its own operations within the District of Columbia or for the benefit of visitors to the Nation's Capital. The federal government operates and maintains its own buildings, national monuments and parks, and it provides financial support to visitor attractions such as the National Gallery of Art, the Smithsonian Institution, and the National Zoo. The federal government also maintains special police forces and guard services to protect the White House, the Capitol, the Supreme Court, other federal facilities and foreign embassies and missions.

The implementation of certain provisions of the Budget Control Act of 2011 (Pub. L. No. 112-25) (the "Budget Control Act"), which was signed into law by the President on August 2, 2011, has adversely impacted the District, although the impact to date has been less than originally anticipated. As a result of the failure of the Joint Select Committee on Deficit Reduction to reach an agreement on the deficit reduction actions as required by the Budget Control Act, sequestration – a unique budgetary feature of the Budget Control Act – was implemented beginning in Fiscal Year 2013, resulting in automatic cuts to federal spending for designated agencies and programs of $1.2 trillion. These federal spending cuts are to be spread evenly over Fiscal Years 2013 through 2021. Although sequestration reduces the availability of certain federal funds typically received annually by the District, portions of certain federal programs, including Medicaid and federal spending for highways, to the extent otherwise subject to obligation limitations, are currently exempt from sequestration. The District estimates the annual revenue reductions from the sequestration to be approximately $20 to $30 million for Fiscal Years 2014 and 2015. In addition, the District has estimated a potential annual reduction of approximately $40 million of federal grant revenues, and $10 million of federal payments for Fiscal Years 2013 through 2021. Even if sequestration is modified, the District may face reduced federal grant awards in future years as a result of overall efforts to control federal spending. The reduction to federal grant revenues is a separate issue from the effects of sequestration, or other potential federal cutbacks, on the District's local funds revenues as a result of reduced federal activity in the District of Columbia and the region, and the resulting overall economic impact.

***Federal Payments***. The federal government provides the District with federal payments to pay for certain specified purposes, such as school improvements and the Tuition Assistance Grant program. The District received federal payment revenues of approximately $151 million in Fiscal Year 2010, $126 million in Fiscal Year 2011, $74 million in Fiscal Year 2012, $59 million in Fiscal Year 2013, and $53 million in Fiscal Year 2014. In addition to these amounts, the federal government contributed funds for certain retirement programs for District employees, totaling approximately $519 million in Fiscal Year 2010, $492 million in Fiscal Year 2011, $482 million in Fiscal Year 2012, $496 million in Fiscal Year 2013, and $467 million in Fiscal Year 2014, which amounts were paid directly by the federal government and were not part of the District's budget.

***Federal Grants***. The District, similar to most states, participates in a number of federal programs that are funded through formula and project grants, direct payments for specified and unrestricted use, food stamps and other pass-through grants and direct and guaranteed loans. The federal government provided federal operating grants to the District (other than certain increases within the American Recovery and Reinvestment Act of 2009 ("ARRA")) in the amount of approximately $2.2 billion in Fiscal Year 2010, $2.4 billion in Fiscal Year 2011, $2.6 billion in Fiscal Year 2012, $2.7 billion in Fiscal Year 2013, and $2.8 billion in Fiscal Year 2014. Capital grants to the District, which are used to purchase or construct fixed assets, such as land, utility plants, buildings and equipment, totaled approximately $244.3 million in Fiscal Year 2010, $173.0 million in Fiscal Year 2011, $261.4 million in Fiscal Year 2012, $270.8 million in Fiscal Year 2013, and $178.2 million in Fiscal Year 2014, the bulk of which were United States Highway Trust Fund moneys provided for public infrastructure improvements.

The District is currently working with the U.S. Department of Housing and Urban Development ("HUD") to resolve issues with respect to approximately $28.5 million of Community Development Block Grant ("CDBG") funds received by the Department of Housing and Community Development ("DHCD") over a nine-year period. This amount represents less than 10% of the over $390 million of CDBG funds and associated program income received by the District over the relevant years. On February 27, 2013, DHCD submitted a letter to HUD with documentation in support of the expenditures. As of the date of this Official Statement, there has been no response from HUD. The District has not made any repayments to HUD related to this issue. While the possibility exists that the District may have to repay some or all of these funds, to date, no request for repayment has been made. If such a request is made, the District would have the right to appeal to reduce or eliminate any such amounts requested to be repaid.

***Federal Direct Subsidy Payments***. The District issued its Income Tax Secured Revenue Bonds, Series 2009E, Income Tax Secured Revenue Bonds, Series 2010F and General Obligation Bonds, Series 2010A as BABs (as defined below) (collectively, the "District BABs"). The District issued its Income Tax Secured Revenue Bonds, Series 2010D as QSCBs (as defined below) (together with the District BABs, the "Direct Subsidy Bonds"). Federal direct subsidy payments are available to the District to support debt service payments on the Direct Subsidy Bonds.

As part of ARRA, Congress added provisions to the Internal Revenue Code of 1986, as amended (the "Code") that permitted state or local governments to issue bonds as "build America bonds" or "BABs." BABs were required to meet certain requirements of the Code and the related Treasury regulations, and the issuer was required to make an irrevocable election to have the special rule for qualified bonds apply. Interest on BABs is not excluded from gross income for purposes of federal income taxation.

Under the Code, an issuer of BABs could apply to receive direct subsidy payments from the Secretary of the United States Department of the Treasury (the "Treasury"). To receive a direct subsidy payment for BABs, under existing procedures, the issuer of the BABs must file a tax return (designated as Form 8038-CP) between 90 and 45 days prior to the corresponding bond interest payment date, with such issuer to receive the direct subsidy payment contemporaneously with the interest payment date with respect to such bond. Depending on the timing of the filing and other factors, the direct subsidy payment on BABs may be received before or after the corresponding interest payment date.

Under the Code, an issuer also may issue "qualified school construction bonds" or "QSCBs," the proceeds of which may be used to construct, rehabilitate or repair a public school facility, to acquire land provided that the facility to be constructed with the same issue of QSCBs will be located on the land, and to acquire equipment or furniture provided that the equipment or furniture is to be used in the portion of the public school facility that is being constructed, rehabilitated or repaired with the proceeds of the QSCBs. These bonds may be issued by a state or local government within the jurisdiction in which the public school facility is located and bond proceeds are required to be spent for a facility located within the jurisdiction of the issuer. Issuers of QSCBs may elect to receive direct subsidy payments from the Treasury for interest payments on QSCBs. The District made such an election for its issuance of QSCBs.

The direct subsidy payments paid to the District in Fiscal Year 2014 were $18,606,234. The direct subsidy payments scheduled to be paid to the District (prior to any impact of sequestration) are approximately $19.8 million in Fiscal Year 2015 and approximately $19.7 million in Fiscal Year 2016. Direct subsidy payments are not reflected in Table 1 below.

There can be no assurances that the District will receive the direct subsidy payments on the Direct Subsidy Bonds, as such payments do not constitute a full faith and credit guarantee of the United States of America. Direct subsidy payments are required to be paid by the Treasury under ARRA. The amount of any direct subsidy payment is subject to change by Congress. The direct subsidy payments will only be paid if the Direct Subsidy Bonds continue to be qualified under federal requirements. The District is obligated to make all payments of principal and interest on the Direct Subsidy Bonds whether or not it receives the direct subsidy payments from the Treasury.

Direct subsidy payments are also subject to offset against certain amounts that may, for unrelated reasons, be owed by the District to an agency of the federal government. Any such offset would occur as part of the Treasury's Offset Program, which collects delinquent amounts due to federal agencies and states in accordance with 26 U.S.C. §6402(d), 31 U.S.C. §3720A, and other applicable laws. From time to time payments of various amounts due to the District, including direct subsidy payments, have been delayed by the federal government pending resolution of a particular claim or dispute. In each case, the District has promptly resolved the matter.

Sequestration also affected the amount of direct subsidy payments received by the District. According to the Office of Management and Budget, budget cuts resulting from sequestration amounted to a 7.2% reduction in direct subsidy payments in Fiscal Year 2014. Federal budget cuts in Fiscal Year 2015 related to sequestration reduced the expected direct subsidy payments to the District by 7.3% or approximately $1.45 million.

**Table 1. Federal Revenues, by Category**
Fiscal Year 2014
($ in thousands)

| | | |
|---|---|---|
| Pension Contributions[1] | $467,290 | |
| Federal Payments in the District's Budget, Operating | 52,556 | |
| Federal Payments in the District's Budget, Capital | 0 | |
| Federal Payments, Total | | 519,846 |
| Federal Operating Grants | | 2,848,720 |
| Federal Capital Grants | | 178,217 |
| **Total** | | **$3,546,783** |

(1) Pension contributions do not pass through the District's budget. Pension contributions are for Police, Firefighter and Teacher Retirement Funds, for liabilities the federal government assumed through the National Capital Revitalization and Self-Government Improvement Act of 1997, Pub. L. No. 105-33.

Sources: District's CAFR for Fiscal Year 2014.

## BUDGETING AND FINANCIAL PROCEDURES

### General

The Home Rule Act requires the District to have an annual budget that includes, among other things, the budget for the forthcoming Fiscal Year, a multiyear plan for all agencies and all sources of funding, a multiyear capital improvement plan, a performance report comparing actual performance to goals, an issue analysis statement and a summary of the budget for public distribution. The multiyear plan includes prior actual experience and the approved current Fiscal Year budget and estimates for at least the four succeeding Fiscal Years.

For each Fiscal Year, the Mayor is required by the Home Rule Act to submit to the Council, at such time as the Council directs, a budget, prepared on the basis that proposed expenditures do not exceed resources. Upon approval by the Council, the budget is transmitted by the Mayor to the President, for transmission by the President to Congress. After the submission of the District's proposed budget to Congress, the District's budget is subject to the Congressional appropriations process. Congress is free to alter the budget as it sees fit. If Congress fails to enact the District's appropriations act by the start of the new Fiscal Year on October 1, Congress must enact a continuing resolution in order for the District to expend its revenues and operate the government. The District cannot spend money, including locally generated funds, without Congressional appropriations or authorization, except for certain designated purposes, including, among other things, the payment of debt service on income tax secured revenue bonds, general obligation bonds and general obligation tax revenue anticipation notes. The District annually estimates the litigation obligations that it expects will be incurred during a Fiscal Year, and provides for such estimated amount in developing its budget for such Fiscal Year. See Note 15 in the Fiscal Year 2014 Financial Statements. The FY15 Appropriations Act (as defined herein), however, appropriates applicable funds as may be necessary for the payment of legal settlements or judgments that have been entered against the District.

Pursuant to the provisions of (i) the federal Anti-Deficiency Act, 31 U.S.C. §§ 1341, 1342, 1349-1351 and 1511-1519 (the "Federal ADA") and D.C. Official Code §§ 1-206.03(e) and 47-105; (ii) the District of Columbia Anti-Deficiency Act, D.C. Official Code §§ 47-355.01 – 355.08 (the "D.C. ADA" and (i) and (ii) collectively, as amended from time to time, the "Anti-Deficiency Acts"); and (iii) Section 446 of the District of Columbia Home Rule Act, D.C. Official Code § 1-204.46, with the exception of repayment of debt service on bonds and expenditures of certain grants, the District cannot obligate itself to any financial commitment in any present or future year unless the necessary funds to pay that commitment have been appropriated by Congress and are lawfully available for the purpose committed.

After Congress appropriates the District's budget, the District's ability to shift funds between major funding categories approved during the appropriations process remains constrained by federal and local law. A request by the Mayor to reprogram funds is subject to approval by the Council, including reprogrammings between agencies within the same appropriation title.

The Office of the CFO monitors spending primarily through a quarterly financial review process. That process involves the submission of a quarterly financial status update from each agency of the District, an analysis of those reports by staff of the Office of Budget and Planning, and reconciliation of any differences from forecasted spending. In addition, a monthly Financial Status Report ("FSR") is compiled to provide a "snapshot" of the District's progress in executing the annual operating budget, as well as a quarterly FSR on capital spending. As necessary, follow-up meetings between staff of the Office of Budget and Planning and agency personnel are conducted to explore more fully expenditure control issues and forecasting assumptions. Agency directors and financial managers may be required by the CFO to submit specific action plans, including milestone achievement dates, to eliminate potential overspending. Remedial action plans are required wherever current agency control plans are deemed to be inadequate to ensure budget balance.

If overspending during a Fiscal Year has occurred or is anticipated and agencies do not reduce spending to the authorized levels, the CFO is authorized to take actions that are intended to ensure spending reductions. Such actions can include apportionment (authorizing no more than a pro rata portion of an annual budget to be expended each month), reducing budget authority in the financial management system available to such agency, restricting purchase approvals and instituting employee furloughs and reductions in force.

The Office of the CFO requires, subject to exceptions for "direct vouchers" as explained below, that all expenditures by District agencies first be obligated in the District's accounting and financial reporting systems before being vouched and paid. In certain instances, however, the payees cannot be determined in advance or the nature of the expenditures does not lend itself to prior obligation. In those instances, the Office of the CFO has authorized agencies to expend funds that have not been obligated previously in the District's accounting and financial reporting systems. This process is referred to by the District as expenditures by "direct voucher." Examples of permitted direct voucher expenditures are litigation settlements, payments for court orders, workers' compensation and unemployment benefits and procurements due to an emergency arising from unanticipated and nonrecurring extraordinary needs of an emergency nature. Although expenditures by direct vouchers are not obligated previously in the District's accounting and financial reporting systems, most of those expenditures are included in the District's budgeting process. For example, although litigation settlements are in general paid as a permitted direct voucher expenditure, the Office of the Attorney General for the District of Columbia (the "Office of the Attorney General") provides each year to the Office of the CFO its best judgment as to the amount of litigation expenditures that may occur in a Fiscal Year and such estimate is taken into account in preparing the budget. The amount of expenditures by direct voucher and the percentages such expenditures represent of total General Fund expenditures and other uses in a particular Fiscal Year are as follows: 2010 – $741,660,668 (10.85%), 2011 – $691,308,978 (11.4%), 2012 – $703,622,574 (10.2%), 2013 – $719,846,375 (10.7%), and 2014 – $705,940,260 (9.3%). The Office of the CFO has numerous tools to ensure that the impact of direct vouchers on the ability to monitor and control expenditures is minimal. Agencies operate within their authorized budgets even with the use of the direct voucher program and the Office of the CFO continues to carefully monitor their use. The CFO issued in 1996 the first order that established guidelines for the use of direct vouchers and subsequently revised that order on September 5, 2007 and again on June 22, 2011. The Office of the CFO has determined that in Fiscal Year

2014 approximately $7,129,996 (1.01%) of expenditures by direct voucher did not fully conform with such guidelines.

***Local Budget Autonomy Legislation***. The Local Budget Autonomy Amendment Act of 2012, adopted by the District Council on December 18, 2012, was subsequently approved by the District voters (the "Budget Autonomy Act"). The Budget Autonomy Act grants the District, effective January 1, 2014, the right to enact and appropriate its local funds budget without the need for approval by the United States Congress and to establish the District's fiscal year. The legal validity of the Budget Autonomy Act has been challenged in the U.S. District Court for the District of Columbia. The District court issued a decision in which it concluded that the Budget Autonomy Act is unlawful and permanently enjoined enforcement of the act. The Council filed its appeal to the U.S. Court of Appeals for the District of Columbia. On March 23, 2015, Mayor Muriel Bowser, the current Mayor for the District, filed a motion to dismiss the lawsuit, alleging, among other things, that the claims involved in the litigation are not ripe for judicial intervention. The Council and the CFO filed separate responses to the Mayor's motion, reaffirming their respective positions with regard to the Budget Autonomy Act and seeking judicial resolution. The Court has not ruled on the Mayor's motion. Notwithstanding the Budget Autonomy Act, the FY15 Appropriations Act and the FY16 BRA (each as defined below) provide the District with spending authority for District local funds for the remainder of Fiscal Year 2015 and Fiscal Year 2016, as further described in the following paragraph.

***Federal Appropriations for Fiscal Years 2015 and 2016***. Generally, the District cannot obligate or expend District funds without a federal appropriation. On September 19, 2014, the President signed the Continuing Appropriations Resolution, 2015 (Pub. L. No. 113-164) (the "FY15 CR"), that provided appropriations for the federal government and the District (federal portion) through December 11, 2014 and further authorized the District to spend its local budget at the level set forth in the Fiscal Year 2015 Budget Request Act of 2014 ("FY15 BRA") as submitted to Congress, as modified as of the date of the FY15 CR. Subsequently, the President signed the Consolidated and Further Continuing Appropriations Act, 2015 (Pub. L. No. 113-235) ("FY15 Appropriations Act") that provided appropriations for the District for Fiscal Year 2015, and further authorizes the District to spend its local budget at the level set forth in the Fiscal Year 2016 Budget Request Act of 2015 ("FY16 BRA") as submitted to Congress in the Fiscal Year 2016 Proposed Budget (as defined herein), as modified as of the beginning of a period in which neither a continuing resolution applicable to the District nor a Congressional appropriations bill for the District is in effect.

**Cash Reserves**

The District is required by federal law to maintain the Emergency Reserve Fund and the Contingency Reserve Fund, and is required by District law to maintain the Fiscal Stabilization Reserve Account and the Cash Flow Reserve Account. The Fiscal Year 2011 BSA (as defined herein) directed the CFO to create the Fiscal Stabilization Reserve Account and the Cash Flow Reserve Account as segregated nonlapsing accounts within the cumulative Fund Balance. These two accounts were established with the goal of replenishing and augmenting the spendable portion of the District's Fund Balance to a level that, together with the Emergency Reserve Fund and the Contingency Reserve Fund, equals approximately two months of operating expenditures. The Cash Flow Reserve Account, the Fiscal Stabilization Reserve Account, the Emergency Reserve Fund, and the Contingency Reserve Fund are collectively referred to herein as the "Cash Reserves." See Table 2 for the balances of the Cash Reserves for Fiscal Years 2010-2014.

***Emergency Reserve Fund***. The District is required by federal law to maintain an Emergency Reserve Fund, which is a separate account within the General Fund. The District is required to deposit not later than October 1 of each Fiscal Year into the Emergency Reserve Fund that amount in cash necessary to bring the balance in such fund to 2% of the actual operating expenditures (less the amount necessary to repay draws during the next two Fiscal Years) paid from local funds for the Fiscal Year of the most recently issued CAFR, after deducting from such expenditures those amounts attributed to debt service payments for which a debt service reserve or escrow fund is already established.

The CFO, in consultation with the Mayor, developed a policy to govern the use of such funds, which is limited by law to unanticipated and nonrecurring extraordinary needs of an emergency nature. Accordingly, the Emergency Reserve Fund may not be used to fund (i) any department, agency, or office of the District that is administered by a receiver, (ii) shortfalls in any projected expenditure reductions that are included in the budget proposed by the District, or (iii) settlements and judgments made by or against the District. Funds may be allocated from the Emergency Reserve Fund only after the CFO has prepared an analysis regarding the non-availability of other sources of funding to carry out the purposes of the allocation and the impact of such allocation on the balance and integrity of the Emergency Reserve Fund.

The District must replenish any expenditures from the Emergency Reserve Fund so that not less than 50% of such expenditures or the amount needed to restore the 2% balance, whichever is less, is replenished by the end of the first Fiscal Year following the year in which the expenditure was made, with the balance being restored by the end of the second Fiscal Year. If funds in the Emergency Reserve Fund are expended, the Mayor and the Council must notify the Committees on Appropriation of the Senate and the House in writing not more than 30 days after such expenditure.

***Contingency Reserve Fund***. The District is required by federal law to maintain a Contingency Reserve Fund, which is a separate account within the General Fund. The District is required to deposit not later than October 1 of each Fiscal Year into the Contingency Reserve Fund that amount in cash necessary to bring the balance in such fund to 4% of the actual operating expenditures (less the amount necessary to repay draws during the next two Fiscal Years) paid from local funds for the Fiscal Year of the most recently issued CAFR, after deducting from such expenditures those amounts attributed to debt service payments for which a debt service reserve or escrow fund is already established.

The CFO, in consultation with the Mayor, developed the District of Columbia Comprehensive Financial Management Policy (the "Policy") to govern the use of such funds, which is limited to nonrecurring or unforeseen needs that arise during the Fiscal Year, including natural disasters, unforeseen weather conditions, unexpected obligations created by federal law, new public safety or health needs or opportunities to achieve cost savings. The Contingency Reserve Fund also may be used to cover revenue shortfalls that continue for three consecutive months (based on a two month rolling average) that are 5% or more below the budget forecast. The Policy is described in Appendix A to the District's annual budget and financial plan.

The District must replenish any expenditures from the Contingency Reserve Fund so that not less than 50% of such expenditures or the amount needed to restore the 4% balance, whichever is less, is replenished by the end of the first Fiscal Year following the year in which the expenditure was made, with the balance being restored by the end of the second Fiscal Year.

In addition, the District has the authority to allocate and use amounts in the Emergency Reserve Fund and Contingency Reserve Fund for cash flow management purposes. Such allocations may not exceed 50% of the balance of the applicable reserve fund at the time such allocation is made. The aggregate amount allocated from a reserve fund during a Fiscal Year may not exceed 50% of the balance of such fund as of the first day of such Fiscal Year. Following any allocation, the District is required to fully replenish the amounts allocated from a reserve fund not later than the earlier of (i) nine months after the allocation or (ii) the last day of the Fiscal Year. In addition, following any allocation from a reserve fund for cash flow management purposes, if the District makes any other allocation from such fund during a Fiscal Year the result of which is that the balance of the reserve fund is reduced to an amount that is less than 50% of the balance of the reserve fund on the first day of such Fiscal Year, the District must replenish the balance of such fund within 60 days to an amount equal to 50% of the balance of the reserve fund on the first day of such Fiscal Year. Nothing precludes the District from using such funds for cash flow management purposes more than once during a Fiscal Year, subject to the provisions regarding replenishment.

***Cash Flow Reserve Account***. The Cash Flow Reserve Account was established by the District in Fiscal Year 2011 and may be used by the CFO to cover cash-flow needs, provided that any amounts used must be replenished to the Cash Flow Reserve Account in the same Fiscal Year. At full funding, the Cash Flow Reserve Account will equal 8.33% of the General Fund operating budget for each Fiscal Year. At September 30, 2014, the cash balance in the Cash Flow Reserve Account was $343,528,000, which was approximately 4.75% of the General Fund operating budget as of that date.

***Fiscal Stabilization Reserve Account***. The Fiscal Stabilization Reserve Account was established by the District in Fiscal Year 2011 and may be used by the Mayor for those purposes for which the Contingency Reserve Fund may be used as discussed above (except for cash flow management purposes), as certified by the CFO, with approval of the Council by act. At full funding, the Fiscal Stabilization Reserve Account will equal 2.34% of the District's General Fund operating expenditures for each Fiscal Year. At September 30, 2014, the cash balance in the Fiscal Stabilization Reserve Account was $164,551,000, which was approximately 2.34% of the General Fund operating expenditures as of that date, representing full funding of the account. To date, the District has never withdrawn funds from the Fiscal Stabilization Reserve Account.

If either of the Cash Flow Reserve Account or the Fiscal Stabilization Reserve Account is below full funding, immediately upon issue of the District's CAFR, the CFO is required to deposit 50% of the undesignated end-of-year Fund Balance into each account, or 100% of the undesignated end-of-year Fund Balance into the account that has not reached capacity, to fully fund these accounts to the extent that the undesignated end-of-year Fund Balance allows. If amounts required to satisfy the reserve requirements for the Emergency Reserve Fund or the Contingency Reserve Fund are reduced, the amount required to be deposited in Fiscal Stabilization Reserve Account is required to be increased by a like amount.

***Cash Reserve Fund Balances***. In Fiscal Years 2010-2014, all withdrawals from the Emergency and Contingency Reserve Funds (which, by law, must be fully replenished over the two succeeding Fiscal Years), as well as the Cash Flow Reserve Account for Fiscal Years 2011-2014, were replenished by the close of the same Fiscal Year as the withdrawals. There have been no withdrawals from the Fiscal Stabilization Reserve Account. All of the draws on the Cash Reserves were for authorized purposes, and the respective replenishments were made in compliance with the statutory deadlines.

**Table 2. CAFR Cash Reserve Fund Balances**
($ in millions)

| Fiscal Year | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Emergency Reserve Fund | $110 | $110 | $110 | $112 | $116 |
| Contingency Reserve Fund | 228 | 229 | 229 | 227 | 239 |
| Cash Flow Reserve Account | N/A | 152 | 346 | 295 | 344 |
| Fiscal Stabilization Reserve Account | N/A | 42 | 96 | 156 | 165 |

Sources: The District's CAFRs for Fiscal Years 2010-2014.

During the period October 1 through October 16, 2013, the federal budget impasse resulted in no appropriations for the District's budget for Fiscal Year 2014. Accordingly, the District utilized money in the Contingency Reserve Fund (which carries a permanent appropriation and carried a balance of $150 million into Fiscal Year 2014). This fund was used, in conjunction with the Mayor's declaration that all District employees are essential, to allow all District employees to continue working and to pay them currently, and to fund certain other actions that required immediate funding, with $125 million allocated for payroll and $23 million allocated for other costs. The District has fully replenished the amounts drawn from the Contingency Reserve Fund during such period.

The Fiscal Year 2015 Approved Budget (as defined herein) projects the Fiscal Year 2015 Emergency Reserve Fund and the Contingency Reserve Fund balances to be $121.6 million and $243.1 million, respectively. The projection assumes that all draws made during the Fiscal Year will be replenished either during the Fiscal Year or during the Fiscal Year 2015 close. The projection of a slight increase of the balances over Fiscal Year 2014 is based on the applicable local fund expenditures in the District's CAFR for Fiscal Year 2014.

**Financial Procedures**

***Audit and Accounting Practices***. The District's Fiscal Year covers the 12-month period between October 1 of one calendar year and September 30 of the next calendar year. The District uses Generally Accepted Accounting Principles ("GAAP") for governments, established by the Governmental Accounting Standards Board ("GASB"), to account for its assets, liabilities, equity and results of operations. The budgetary basis of accounting is used to prepare budgetary comparison statements; however, the District's financial statements are prepared using GAAP. GAAP basis statements include a number of revenue, expenditure and source and use items which are excluded from the budget. Consequently, the GAAP-based presentation provides a more comprehensive view of the activities in the General Fund (the District's principal operating fund). Since Fiscal Year 1980, the financial statements of the District have been prepared in accordance with GAAP for governments and audited by Independent Certified Public Accountants. Additional information concerning the District's accounting policies is provided in the disclosures contained in the Notes to the Basic Financial Statements (as set forth in the Fiscal Year 2014 Financial Statements), which explain the items presented in the main body of the financial statements.

D.C. Official Code § 47-119 requires that the District's financial operations be audited each Fiscal Year by an independent auditor. The District selected KPMG, LLP as its independent auditor for Fiscal Year 2010 pursuant to a one-year contract that was subject to four annual renewals at the option of the District. District law provides that an audit contract with the same auditor cannot be extended past five years. The District has recently selected SB & Company, LLC as its independent auditor for Fiscal Year 2015, following the solicitation of proposals to provide such services.

Consistent with GAAP, the District prepares government-wide financial statements and fund financial statements. Government-wide financial statements focus on all the economic resources of the District and use the full accrual basis of accounting (revenues are recognized when earned and expenses recorded when a liability is incurred). Fund financial statements focus primarily on the sources, uses and balances of current financial resources and use the modified accrual basis of accounting (revenue is recognized only if payment is actually received during the year or soon enough thereafter to pay current-year liabilities).

As set forth in Part 1, the Fiscal Year 2014 Financial Statements, which are included in the District's CAFR for Fiscal Year 2014, have been incorporated herein by reference. The District's CAFR for Fiscal Year 2014 can be found on the District's website at http://cfo.dc.gov/node/995202 or by registering with and logging onto the website of Digital Assurance Certification, L.L.C. ("DAC") at www.dacbond.com. DAC is the disclosure dissemination agent for the District. Copies of the District's CAFRs may also be obtained by written request submitted to the Treasurer of the District of Columbia, Office of Finance and Treasury, 1101 Fourth Street, S.W., Suite 850, Washington, D.C. 20024, or by email at dcinvestorrelations@dc.gov. The District did not require the independent auditor's consent to incorporate by reference herein the Fiscal Year 2014 Financial Statements. The independent auditor did not review or perform any procedures relating to this Official Statement. Further, the independent auditor has not been engaged to perform and has not performed, since the date of the CAFR for Fiscal Year 2014, any procedures on the financial statements addressed in its report as a part of the CAFR for Fiscal Year 2014.

***Revenue Estimates and Expenditure Projections***. The Home Rule Act requires the CFO to submit quarterly estimates of all revenues of the District to the Mayor and Council. The most recent revenue estimates for the District for Fiscal Years 2015-2019 was submitted by the CFO on February 27, 2015 (the "February 2015 Revenue Estimate"). Forecasted revenues in the February 2015 Revenue Estimate increased by $36.5 million in Fiscal Year 2015 and by $37.3 million in Fiscal Year 2016 from the revenue estimate submitted by the CFO on December 30, 2014. Table 3 below shows the revenue estimates for the District for Fiscal Years 2015-2019, as included in the February 2015 Revenue Estimate.

**Table 3. Local Source, General Fund Revenue Estimates**
($ in millions)

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| February 2015 Revenue Estimate | $6,614.0 | $6,867.1 | $7,095.0 | $7,344.0 | $7,576.2 |

The District's revenue outlook is predicated on continuing improvement in the national economy, and assumes that growth in the District's economy will also accelerate, adding both jobs and population over the period of the financial plan. Some significant measures to reduce federal spending are, however, expected to be in effect during the period of the financial plan, with the severity of their impact diminishing over time. Population growth has been a major factor in increasing the District's income and sales tax bases, and is also a major driving force behind rising home values. In the last five years (2009 to 2014), the District's population has grown by 66,665 (11.3%), an increase that has averaged more than 1,000 net new residents per month over this time.

In addition, the February 2015 Revenue Estimate notes that the revenue estimate reflects modest improvement in national and local economies since December 2014. The following are key results highlighted in the February 2015 Revenue Estimate:

- Tax collections for the December-January period were stronger than anticipated, which stronger growth was attributed to greater (i) withholding tax receipts on wages/bonuses paid, (ii) estimated tax receipts based mainly on capital gains, and (iii) retail sales tax receipts from the holiday period.

- Collections of non-tax revenue sources, primarily traffic fines collections, were weaker than anticipated. Fines and forfeiture revenues were reduced by $100 million in Fiscal Year 2015 and by $80 million in Fiscal Year 2016 since the estimate in February of 2014 based on projections of ticket issuance.

With respect to the underlying economic assumptions in the February 2015 Revenue Estimate, the Office of the CFO notes that such assumptions should be viewed against a background of an improving national economy, federal spending constraints, and fairly strong employment and income gains over the past several months. The economic assumptions in the February 2015 Revenue Estimate include the following, among others assumptions:

- Job growth increasing from 0.7% in Fiscal Year 2014 to 1.4% in Fiscal Year 2015, and 1.3% in Fiscal Year 2016;

- Population growth continuing at a slightly slower pace (18,600 or 2.8% over Fiscal Years 2015 and 2016) with resident employment growing by 4.5% over that same period; and

- Personal income growth increasing from 2.7% in Fiscal Year 2014 to 4.7% in both Fiscal Years 2015 and 2016.

The District's revenue assumptions reflect a combination of statistical techniques, historical factors, local information and experience with the regional economy. Statistical techniques used in developing some of these revenue estimates include trending, time series analysis, correlation analysis and other common statistical methods. The estimating process requires ongoing communication with local business officials and economists. For example, the Office of Revenue Analysis routinely consults business, trade and research organizations to determine the current status and future course of the various segments of the region's economy. All of these factors are considered and balanced against the past experience of revenue collections in the District. Only the CFO's revenue estimates may be used for the budget.

In preparing gross expenditure projections, the expenditures are categorized by types of spending, which are also referred to as "object classes." Object classes include categories such as personal and contractual services, supplies and materials, energy, telecommunications, rent, other services and charges, subsidies and transfers, capital outlay and debt service. In order to project overall expenditure growth for an agency, the expenditure growth rate for each object class is estimated and then applied to the base level of spending. The rationale for this approach is that growth rates among spending categories will vary since the factors that influence the growth in these areas vary. For instance, rent expenditures may depend upon long-term contract provisions; utilities expenditures may vary with service demands, energy costs and needs; and other expenditures (such as supplies) may change mainly with the rate of inflation.

***Budgetary Basis***. The District utilizes budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by Congress. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function within the District's General Fund. The District also uses an encumbrance accounting system as another technique for establishing and maintaining budgetary control. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Fund, Special Revenue Fund, or the fund established for federal Programs.

***Fund Accounting***. Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities, which present the non-fiduciary activities of the District (governmental and business-type activities) and its discretely presented component units) are required by GASB's Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The District uses fund accounting to prepare financial statements that focus on specific District functions or activities rather than the District as a whole. Fund accounting is also used to demonstrate compliance with legal requirements established by external parties, governmental statutes, or regulations. The three major fund types for which separate financial statements are provided are governmental funds, proprietary funds and fiduciary funds. Because assets of fiduciary funds are held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not included in the government-wide financial statements.

***Governmental Funds***. The District's major governmental funds consist of the General Fund, the Federal and Private Resources Fund and the General Capital Improvements Fund.

General Fund. The General Fund is the principal operating fund of the District. It is used to account for all financial resources except for those required to be accounted for in another fund. Expenditures for public safety and justice, public education, human support services, economic development and regulation, public works, receiverships, joint venture (transit) subsidy, debt service on general obligation debt and governmental direction and support are all recorded in the General Fund. The General Fund also partially supports, primarily through operating transfers, the activities of certain component units (the University of the District of Columbia (the "University") and the Washington Convention and Sports Authority ("WCSA"), which was created on October 1, 2009, through the merger of the Sports and Entertainment Commission (the "Sports Commission") and the Washington Convention Center Authority ("WCCA")). Major current tax revenue sources of the General Fund include real property taxes, sales and use taxes and income and franchise taxes. The federal grant-in-aid programs constitute significant intergovernmental revenue sources of the General Fund.

The Federal and Private Resources Fund. The Federal and Private Resources Fund is used to account for proceeds of intergovernmental grants and other federal payments and private grants that are legally restricted to expenditure for specified purposes.

General Capital Improvements Fund. The General Capital Improvements Fund is used to account for the purchase or construction of capital assets financed by operating transfers, capital grants or debt.

Governmental fund revenues are recognized when they become available and measurable. Revenues, except for property taxes, are deemed available if they are collectible within the current year or within a reasonable time thereafter to pay liabilities of the current year. Property taxes are recognized as revenue in the fiscal period for which they were levied and are deemed available if they are collected within 60 days of the end of the Fiscal Year. Allowances for taxes that may ultimately be uncollectible are estimated and recorded as reductions of revenues. Grants that are restricted to specific uses are recognized as revenues when the related costs are incurred. For expenditure-driven grants, revenues are recognized when all eligibility criteria and compliance requirements have been met and allowable costs have been incurred. Grants that are collected before eligibility and compliance requirements are met or the related costs are incurred are reported as deferred revenues. In addition, grants collected before the period for which use is intended are also reported as deferred revenues. Expenditures and expenses are recognized when the liabilities are incurred, if measurable.

***Proprietary Funds***. Proprietary funds are used to account for activities similar to those found in the private sector where the costs (including depreciation) of providing goods and services primarily or solely to the public on a continuing basis are or could be financed or recovered primarily through user charges. The District's two major proprietary funds are the Lottery and Games Fund, the net proceeds from the operation of which are deposited into the General Fund at the end of each Fiscal Year and the Unemployment Compensation Fund, which is used to account for the accumulation of resources to be used for benefit payments to unemployed former employees of the District and federal government and of private employers in the District.

***Fiduciary Funds***. Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations and other governments. The District reports the following fiduciary funds: Pension Trust Funds, Other Postemployment Benefits Trust Fund, Private Purpose Trust Fund (Section 529 college savings plan) and Agency Funds. Agency Funds are used to account for refundable deposits required of various licensees, monies held in escrow and other assets held in the custody of the District, as an agent for individuals, private organizations, other governments, or other funds.

***Component Units***. As of the end of Fiscal Year 2014, the District reports five discretely presented component units: WCSA, the University, the District of Columbia Housing Finance Agency, Not-For-Profit Hospital Corporation (d/b/a the "United Medical Center" or "UMC"), and the District of Columbia Health Benefit Exchange Authority. The District also reports one blended component unit: the Tobacco Settlement Financing Corporation (the "Tobacco Corporation").

***Performance Audits and Reports***. The District is subject to performance audits by the Comptroller General of the United States, who heads the Government Accountability Office (formerly General Accounting Office), the District Auditor and the OIG. Such officials and others, including the Congressional Budget Office, have issued reports and made public statements regarding the District's financial condition, including some that have been critical of the District's management and financial operations. It is reasonable to expect that reports and statements that prompt public comment will continue to be issued.

## FINANCIAL INFORMATION

The District's Financial Statements are prepared in accordance with GAAP for state and local governments as promulgated by the GASB. Accounting standards issued by GASB and applicable to the District are adopted and implemented periodically, as reflected in the presentation of financial information in the District's Financial Statements. Certain accounting standards issued in recent years by GASB were not applicable to the District and therefore, were not adopted. Such standards include the following:

- GASB Statement No. 57: *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective in December 2009 (alternative measurement method) or for fiscal periods beginning after June 15, 2011 (use of actuarial valuations) and

- GASB Statement No. 58: *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for fiscal periods beginning after June 15, 2009.

### District's General Fund: Fund Balance

The District began Fiscal Year 2014 (October 1, 2013) with a General Fund balance of $1.749 billion. The General Fund balance at the end of Fiscal Year 2014 (September 30, 2014) was $1.874 billion. Based upon GAAP principles, the District ended Fiscal Year 2014 with an excess of revenues over expenditures of approximately $146.6 million in the General Fund, which, when combined with other financing sources and uses in the General Fund of -$21.9 million for Fiscal Year 2014, resulted in a net change of $124.7 million in the General Fund balance. See Exhibit 2-b in the Fiscal Year 2014 Financial Statements.

From time to time, the District budgets funds from the General Fund's fund balance for various expenditures. In Fiscal Year 2014, the District expended $98.4 million of its General Fund balance.

Fund balance, in the governmental funds financial statements, will generally differ from net assets in the government-wide financial statements due to the difference in the measurement focus and basis of accounting used in the respective financial statements. Fund financial statements focus on the sources, uses and balances of current financial resources and use the modified accrual basis of accounting. The government-wide financial statements focus on all economic resources and use the full accrual basis of accounting. Non-current liabilities such as claims and judgments, compensated absences, general obligation debt and interest on other long-term debt are included in the government-wide financial statements but are not included in the governmental funds financial statements. The difference is the recording of long-term obligations that will be liquidated with future years' resources.

As described more fully in Note 1 of the District's CAFR for Fiscal Year 2014, the General Fund Balance is made up of funds that fall into five categories: Nonspendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance and Unassigned Fund Balance.

- Nonspendable Fund Balance represents resources that cannot be spent because they are either not in spendable form (e.g., physical assets) or are legally or contractually required to be maintained intact.

- Restricted Fund Balance represents resources whose use is constrained by external factors; such as debt covenants, laws, regulations, or through restrictions imposed by law. Included in the Restricted Fund Balance category, for example, are the Emergency and Contingency Cash Reserves, and the funds received pursuant to tobacco settlement which are dedicated to the payment of the Tobacco Settlement Asset-Backed Bonds issued in Fiscal Years 2001 and 2006.

- Committed Fund Balance represents resources that can only be used for specific purposes pursuant to limitations imposed by the District government. This category includes such things as the Fiscal Stabilization Reserve and the Cash Flow Reserve, as well as the Commodities Reserve and other specific purposes that are financed by dedicated taxes that, as a result of the dedication, are not available for general budgeting.

- Assigned Fund Balance represents resources that are neither restricted nor committed but for which the District has a stated intended use established by the Mayor or the Council. This category can include things such as non-recurring policy initiatives in a subsequent fiscal year or other expenditures included in the current Fiscal Year's budget and approved by the Council.

- Unassigned Fund Balance represents resources which cannot be classified in one of the other categories.

The following table sets forth the composition of the General Fund balance as detailed in the District's CAFRs from Fiscal Year 2010 through Fiscal Year 2014.

**Table 4. Composition of General Fund Balance, Fiscal Years 2010-2014**
($ in millions)

| | Fiscal Years | | | | |
|---|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** | **2014** |
| Emergency & Contingency Cash Reserves[1] | $337.9 | $ 338.6 | $ 339.1 | $ 339.5 | $ 355.4 |
| Fiscal Stabilization & Cash Flow Reserves[1] | 0.0 | 194.2 | 441.9 | 451.6 | 508.1 |
| Bond Debt Service | 288.3 | 345.3 | 388.3 | 488.2 | 437.8 |
| Other Nonspendable, Restricted, Committed, Assigned or Unassigned | 304.5 | 226.8 | 337.2 | 469.6 | 572.4 |
| **Total** | **$930.7** | **$1,104.9** | **$1,506.5** | **$1,748.9** | **$1,873.7** |

[1] See "Cash Reserves" herein for more detail on the reserve funds.

**Management Discussion of Three Years Historical General Fund Operations**

The District experienced moderate improvement in its financial condition in Fiscal Years 2012 through 2014 as the District continued to be impacted by the economic downturn of recent years. The District's CAFR earned an unqualified (clean) audit opinion in each of the three Fiscal Years 2012 through 2014.

The results of the General Fund operations in Fiscal Years 2012-2014 are summarized below.

***Fiscal Year 2012***. The District's General Fund ended Fiscal Year 2012 with a budgetary surplus of $416.7 million. After considering fund balances released from restrictions, transfers or other financing sources and debt-related and other adjustments required by GAAP, the non-budgetary or GAAP surplus was $401.6 million. Consequently, the accumulated General Fund fund balance was approximately $1.507 billion at September 30, 2012, as compared to $1.105 billion at September 30, 2011.

***Fiscal Year 2013***. The District's General Fund ended Fiscal Year 2013 with a budgetary surplus of $320.9 million. After considering fund balances released from restrictions, transfers or other financing sources and debt-related and other adjustments required by GAAP, the non-budgetary or GAAP surplus was $242.4 million. Consequently, the accumulated General Fund fund balance was approximately $1.749 billion at September 30, 2013, as compared to $1.507 billion at September 30, 2012.

***Fiscal Year 2014***. The District's General Fund ended Fiscal Year 2014 with a budgetary surplus of $203.7 million. After considering fund balances released from restrictions, transfers or other financing sources and debt-related and other adjustments required by GAAP, the non-budgetary or GAAP surplus was $124.7 million. Consequently, the accumulated General Fund fund balance was approximately $1.874 billion at September 30, 2014, as compared to $1.749 billion at September 30, 2013.

**Summary of General Fund Revenues**

***Local General Fund Revenues***. Local General Fund Revenues exclude federal grants, private and other grants and intra-District transfers, but include income taxes, property taxes, sales and use taxes, the public utility tax and a combination of other taxes and fees, applicable rates of which are shown in Table 5.

The Home Rule Act requires the Council to provide in each annual budget sufficient funds to pay the principal of and interest on general obligation bonds and notes issued by the District under the Home Rule Act.

The acts which provide for the issuance of general obligation bonds also permit the District to levy, without limitation as to rate or amount, for each real property tax year in which general obligation bonds are outstanding, a "Special Real Property Tax" in amounts sufficient to pay the principal of and interest on any such bonds coming due each year. Special Real Property Tax proceeds are irrevocably dedicated and pledged to the payment of principal of and interest on general obligation bonds. See "BUDGETING AND FINANCIAL PROCEDURES – Summary of General Fund Revenues – *Property Taxes*" herein.

In addition to the Special Real Property Tax dedicated to the payment of general obligation bonds, other District taxes are dedicated to the payment of District obligations including: (i) a portion of certain sales and use taxes dedicated to paying debt service on revenue bonds issued by WCSA, (ii) portions of certain sales and use taxes, utility taxes and the Ballpark Fee dedicated to the payment of the Ballpark Bonds (as hereinafter defined), (iii) portions of taxes collected in certain geographical areas for improvements that are pledged to secure tax-increment financing bonds and notes of the District, (iv) individual income tax and business franchise taxes pledged to secure Income Tax Bonds (as hereinafter defined) and (v) portions of deed recordation and deed transfer taxes dedicated to the Housing Production Trust Fund that pay debt service on bonds issued to provide funding for certain housing-related projects. See "INDEBTEDNESS – Summary of Statutory Debt Provisions." The total amount of these pledged revenues represents approximately 12.3% of the District's total General Fund budget for Fiscal Year 2014.

## Table 5. Major Tax Rates
Fiscal Years 2011-2015

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Property**[(1)] | | | | | |
| **Real** | | | | | |
| **Class 1** | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 |
| **Class 2** | 1.65/1.85[(2)] | 1.65/1.85[(2)] | 1.65/1.85[(2)] | 1.65/1.85[(2)] | 1.65/1.85[(2)] |
| **Class 3** | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| **Class 4** | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| **Personal** | 3.40 | 3.40 | 3.40 | 3.40 | 3.40 |
| **Sales and Use**[(3)] | | | | | |
| **General**[(4)] | 0.06 | 0.06 | 0.06 | 0.0575 | 0.0575 |
| **Selective** | | | | | |
| **Cigarettes**[(5)] | 2.50 | 2.86[(6)] | 2.86[(6)] | 2.86[(6)] | 2.90[(6)] |
| **Motor Fuel**[(7)] | 0.235 | 0.235 | 0.235 | 0.235 | 0.235 |
| **Income and Receipts**[(8)] | | | | | |
| **Individual** | 0.04-0.085 | 0.04-0.0895 | 0.04-0.0895 | 0.04-0.0895 | 0.04-0.0895 |
| **Business** | 0.09975 | 0.09975 | 0.09975 | 0.09975 | 0.0940 |
| **Gross Receipts** | | | | | |
| **Public Utility**[(9)] | | | | | |
| **Residential Customers**[(10)] | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| **Non-Residential Customers**[(11)] | 0.11 | 0.11 | 0.11 | 0.11 | 0.11 |
| **Public Utility (Electrical)**[(12)] | | | | | |
| **Residential Customers** | 0.0070 | 0.0070 | 0.0070 | 0.0070 | 0.0070 |
| **Non-Residential Customers**[(13)] | 0.0077 | 0.0077 | 0.0077 | 0.0077 | 0.0077 |
| **Ballpark Fee**[(14)] | $5,500-16,500 | $5,500-16,500 | $5,500-16,500 | $5,500-16,500 | $5,500-16,500 |

(1) Per $100 of assessed value. Property Tax rates represent the aggregate of the Real Property Tax rate and the Special Real Property Tax rate. For the purpose of levying taxes on real property in the District of Columbia, the Council may establish different classes of real property. For Fiscal Years 2011 and 2012, Class 1 is comprised of residential real property that is improved and whose legal use (or in the absence of use, its highest and best permitted legal use) is for nontransient residential dwelling purposes; Class 2 is comprised of all real property that is not classified as Class 1, Class 3 or Class 4 property (being principally commercial real property); Class 3 is comprised of all improved real property that appears on the list of registered vacant properties submitted semiannually by the Mayor to the Office of Tax and Revenue; and Class 4 is comprised of all improved real property that appears on the list of blighted vacant properties submitted semiannually by the Mayor to the Office of Tax and Revenue.

(2) $1.65 for each $100 of assessed value for the first $3 million of assessed value and $1.85 for the portion of assessed value exceeding $3 million.

(3) A portion of sales and use taxes on restaurant meals and hotel accommodations is dedicated to paying debt service on revenue bonds issued by the WCSA and its predecessor, the WCCA, to finance the Walter E. Washington Convention Center and a hotel in connection with the Convention Center and to paying operating expenses of WCSA.

(4) Per $1 of general sales. Does not include the additional 4.25% Ballpark Sales Tax (as defined below) or taxes on lodging, restaurants, parking or tangible personal property or services by legitimate theaters, or by entertainment venues with 10,000 or more seats.

(5) Dollars ($) per pack.

(6) Beginning in Fiscal Year 2012, a wholesale surcharge of $0.36 was added to the $2.50 per pack stamp tax on cigarettes. This surcharge will be reviewed and adjusted as necessary annually in March. Beginning in Fiscal Year 2015, $0.04 was added to the cigarette tax.

(7) Dollars ($) per gallon.

(8) Per $1 of taxable income.

(9) Per $1 of gross receipts. Applies to companies selling natural gas, landline telephone service, toll telecommunications service, mobile telecommunications service, heating oil and artificial gas.

(10) Each gas company that provides distribution services to customers in the District of Columbia is required to pay a tax of $0.0707 for each therm of natural gas delivered to end-users in the District of Columbia and each person who delivers heating oil to an end-user in the District of Columbia is required to pay a tax of $0.17 for each gallon of home heating oil delivered to end-users in the District of Columbia for the preceding billing period.

(11) One-eleventh of the non-residential tax is deposited into the District's Ballpark Revenue Fund (as defined below) to be used for debt service on bonds issued by the District (the "Ballpark Bonds") to fund the construction of a baseball stadium. In addition, each gas company that provides distribution services to customers in the District of Columbia is required to pay a tax of $0.0777 for each therm of natural gas delivered to non-residential end-users in the District of Columbia, of which $0.00707 for each therm is required to be deposited into the District's Ballpark Revenue Fund. Each person who delivers heating oil to an end-user in the District of Columbia is required to pay a tax of $0.187 for each gallon of home heating oil delivered to non-residential end-users in the District, of which $0.017 for each gallon is required to be deposited into the District's Ballpark Revenue Fund.

(12) $0.007 per Kilowatt–hour of electricity delivered to end-users in the District.

(13) $0.0007 of the tax collected for every kilowatt-hour of electricity delivered to non-residential end-users in the District of Columbia is deposited in the Ballpark Revenue Fund to be used for debt service on the Ballpark Bonds.

(14) The Ballpark Fee is a gross receipts fee that is levied on businesses within the District of Columbia with $5 million or more in annual District gross receipts and are either subject to filing franchise tax returns (whether corporate or unincorporated) or are employers required to make unemployment insurance contributions, in accordance with the following schedule: for gross receipts totaling $5,000,000 to $8,000,000, the required fee is $5,500; for gross receipts totaling $8,000,001 to $12,000,000, the required fee is $10,800; for gross receipts totaling $12,000,001 to $16,000,000, the required fee is $14,000; and for gross receipts greater than $16,000,000, the fee is $16,500.

Table 6 shows tax revenues by source, as collected by the District over the last ten fiscal years and presented on a modified accrual basis.

**Table 6. Tax Revenues by Source, Governmental Funds**
Last Ten Fiscal Years
(modified accrual basis of accounting, $ in thousands)

| | Property Tax | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Fiscal Year** | **Real** | **Personal** | **Rental** | **Sales and Use** | **Income and Franchise** | **Gross Receipts** | **Other Taxes** | **Total** |
| 2005 | $1,058,100 | $72,068 | $18,165 | $957,394 | $1,472,432 | $295,819 | $377,213 | $4,251,191 |
| 2006 | 1,163,598 | 55,548 | 22,336 | 970,885 | 1,591,483 | 278,453 | 390,542 | 4,472,845 |
| 2007 | 1,452,267 | 67,394 | 32,239 | 1,056,780 | 1,736,361 | 302,768 | 498,198 | 5,146,007 |
| 2008 | 1,666,315 | 59,690 | 33,086 | 1,101,859 | 1,755,894 | 302,873 | 413,401 | 5,333,118 |
| 2009 | 1,832,748 | 69,163 | 32,612 | 1,052,011 | 1,478,068 | 315,976 | 261,909 | 5,042,487 |
| 2010 | 1,790,519 | 56,501 | 34,264 | 1,081,005 | 1,434,131 | 295,531 | 264,959 | 4,956,910 |
| 2011 | 1,715,069 | 52,696 | 32,980 | 1,121,257 | 1,656,283 | 279,002 | 403,199 | 5,260,486 |
| 2012 | 1,843,918 | 55,734 | 35,134 | 1,218,576 | 1,956,590 | 319,036 | 404,066 | 5,833,054 |
| 2013 | 1,940,169 | 54,878 | 45,450 | 1,247,374 | 2,094,179 | 345,852 | 400,308 | 6,128,210 |
| 2014 | 2,037,905 | 55,413 | 41,719 | 1,282,573 | 2,094,754 | 389,539 | 423,354 | 6,325,257 |

Source: District's CAFR for Fiscal Year 2014; Statistical Section, Exhibit S-1E.

***Income Taxes***. The District levies two major types of income taxes: the individual income tax and business franchise taxes. The individual income tax and the business franchise taxes combined generate the largest proportion of Local General Fund Revenues.

Individual Income Tax. The District imposes an individual income tax on all income earned by full-year residents, part-year residents and individuals occupying District residences at least 183 days of a given calendar year. The current individual income tax rate ranges from 4% on taxable income less than $10,000 to 8.5% on taxable income in excess of $40,000. On January 1, 2012, the Income Tax Rate for taxable income in excess of $350,000 became 8.95% until January 1, 2016. In July 2014, the Council adopted legislation reducing the marginal tax rate on individual income between $40,000 and $60,000 from 8.5% to 7.0%, while keeping the rate of 8.5% for income between $60,000 and $350,000 and establishing a top marginal rate of 8.95% for taxable income in excess of $350,000. These new tax rates became effective January 1, 2015. See the further description of these and other tax reductions under the caption "– *Estimated Impact of Tax Reductions on Local General Fund Revenues*" herein.

Business Franchise Taxes. The business franchise tax consists of two taxes: the corporate franchise tax and the unincorporated business franchise tax. The District imposes a corporate franchise tax on income derived by corporations (including trusts, associations, and partnerships classified as corporations for purposes of federal income taxation) from sources within the District of Columbia at a rate of 9.975%, less certain tax credits. In July 2014, the Council adopted legislation that would lower the tax rate from 9.975% to 9.4%. This new tax rate became effective January 1, 2015. For other nonexempt businesses, the District taxes the annual gross income in excess of $12,000, after certain additional deductions, through an unincorporated business franchise tax. See the further description of these and other tax reductions under the caption "– *Estimated Impact of Tax Reductions on Local General Fund Revenues*" herein.

District legislation authorizes the issuance of revenue bonds secured by a pledge of the revenues generated by the individual income tax and business franchise taxes (described immediately above) imposed by the District. See "INDEBTEDNESS – Summary of Statutory Debt Provisions."

***Property Taxes***. This group of taxes generates the second largest proportion of Local General Fund Revenues. The District levies two primary types of property taxes: the personal property tax and the real property tax.

Personal Property Tax. The District levies a personal property tax on the tangible personal property of businesses, excluding inventories. The current personal property tax rate is $3.40 per $100 of assessed value of tangible personal property in excess of $225,000.

Real Property Tax. The District levies a real property tax on approximately 65%-69% of the value of the District's real property assessment base. The remaining 31%-35% of the value of the real property assessment base is classified as tax exempt and is used by the federal government, District government, foreign governments, nonprofits or other tax-exempt organizations. For information on the relative percentages of land in the District devoted to various taxable and tax-exempt uses, including the area of land encompassing tax-exempt federal government property, see Table 39.

The District levies its real property tax pursuant to D.C. Official Code § 47-811. The Special Real Property Tax pledged to the payment of the general obligation bonds is authorized by the Home Rule Act. There is no limitation in the Home Rule Act on the amount or rate of real property tax levies. Since 1993, the District's real property tax year has been the 12-month period beginning October 1 and ending September 30, the same as the District's Fiscal Year.

Pursuant to D.C. Official Code § 47-812, the Council sets real property tax rates that remain in effect until amended annually. Pursuant to D.C. Official Code § 47-815, (i) the Council receives from the Mayor an estimate of the assessment roll before September 16 of each year, and (ii) if the Council establishes the real property tax rates and the Special Real Property Tax rates as a sum, the CFO will determine and publish a notice annually before September 16 of each preceding tax year the Special Real Property Tax rates to be applied during the tax year. The Home Rule Act requires the Council to provide in each annual budget sufficient funds to pay the principal of and interest on general obligation bonds and notes issued by the District under the Home Rule Act. The Special Real Property Tax is collected at the same time as the real property tax.

Each Fiscal Year a certain percentage of real property tax collections (designated as the Special Real Property Tax) are dedicated to the payment of principal and interest on the District's outstanding general obligation bonds. The percentages for Fiscal Years 2010 through 2015 are shown in Table 7. For Fiscal Year 2015, such percentage has been established as 13.5% and Special Real Property Tax revenues are expected to be approximately 1.15 times the debt service on the District's general obligation bonds.

**Table 7. Percent of Total Real Property Tax Dedicated to General Obligation Bond Debt Service(1)**
(Fiscal Years 2010-2015)

| Fiscal Year | Dedicated Percentage |
|---|---|
| 2010 | 28.0% |
| 2011 | 20.0 |
| 2012 | 14.0 |
| 2013 | 11.0 |
| 2014 | 10.5 |
| 2015 | 13.5 |

(1) The decreases in the dedicated percentage shown in Table 7 are, in part, due to the District's issuance of Income Tax Bonds in lieu of General Obligation Bonds in recent Fiscal Years. See Table 36, which shows the District's Outstanding Tax-Supported Debt with $3.53 billion in General Obligation Bonds and $4.33 billion in Income Tax Bonds outstanding following the issuance of the Bonds.

Real Property Tax Rates. The District has established four classes of real property: Class 1, which includes residential real property that is improved and whose legal use (or in the absence of use, its highest and best permitted legal use) is for nontransient residential dwelling purposes; Class 2, which consists of all real property not in Class 1, Class 3 or Class 4 (being principally commercial real property); Class 3 is comprised of all improved real property that appears on the list of registered vacant properties submitted semiannually by the Mayor to the Office of Tax and Revenue; and Class 4 is comprised of all improved real property that appears on the list of blighted vacant properties submitted semiannually by the Mayor to the Office of Tax and Revenue. See Table 5 for the Property Tax rates reflecting the aggregate of the general real property tax rate and the Special Real Property Tax rate. The effective rate for Class 1 property may be reduced in individual cases by credits and deductions. For instance, Class 1 property owners over 65 whose annual adjusted gross income is less than $127,100 are eligible for a 50% reduction in their real property taxes.

Assessment. The assessed value of all real property is the estimated full market value of the property as of the January 1 preceding the Fiscal Year during which the property will be taxed. The District currently assesses real property on an annual basis.

For tax year 2015, a property owner entitled to claim a homestead deduction for his or her property is allowed a $71,400 deduction in value before the tax rate is applied to the remaining value (this remaining value is known as the "taxable assessment"). In addition, the taxable assessment cannot, by law, increase by more than 10% from year to year, even though real property assessments will continue to be based upon the estimated market value, as required under District law. The $71,400 homestead deduction is subject to annual adjustments upward by the annual increase in the Washington area consumer price index.

Property owners may appeal the proposed assessed value of property by petitioning for an administrative review. The first-level administrative review provides an opportunity for considering information that may enhance the accuracy of the property assessment. A property owner may appeal the first-level administrative review determination to the Real Property Tax Appeals Commission ("RPTAC"). The petition for a first-level administrative review is generally a prerequisite for filing an appeal with RPTAC. RPTAC must hear and decide each appeal and present any revised assessment to the Office of Tax and Revenue. A property owner may appeal RPTAC's final determination to the Superior Court. To seek review of the assessment by the Superior Court, however, the property owner must first exhaust his or her administrative remedies described above, pay the tax and any interest and penalty thereon and file an appeal with the Superior Court on or before September 30 (the end of the tax year).

Taxes become delinquent upon the failure to timely pay any installment thereof. Delinquent real property taxes are subject to a penalty of 10% of the unpaid amount if payment is not received on or before the due date and interest accrues at the rate of 1.5% per month on the amount due for each month or part thereof that the tax is in arrears. Real property taxes are due semiannually on March 31 and September 15. Delinquent real property taxes subject the related property to an automatic lien, which is perfected whenever full payment, including penalty and interest, is not made on or before the due date of the applicable semiannual bill.

Real Property Tax Sale. Each year, the Office of Tax and Revenue mails tax sale notices to all delinquent real property owners. All delinquent real property tax accounts as of October 1 of the preceding year that continue to remain delinquent are advertised in at least two local newspapers to inform property owners of a tax sale auction that will occur with respect to such delinquent properties. The sale of delinquent tax year 2013 taxes was held July 14-15, 2014.

On December 13, 2013, the District Real Property Tax Sale Temporary Act of 2013 (the "Temporary Act") became effective, which established a $2,000 tax lien threshold for any real properties subject to the July 2014 tax sale. On May 28, 2014, the Residential Real Property Equity and Transparency Emergency Amendment Act of 2014 became effective (the "Emergency Act"). The Emergency Act requires a cap on attorney's fees of $1,500 (subject to escalations for protracted litigation), prohibiting the sale of homestead properties within 4 years from the last tax sale, posting a notice of tax sale on the property by the tax sale purchaser, turning over the equity to the former owner of a sold property that was a principal residence, stopping interest earned by the purchaser when the taxes are paid by the property owner, creating an equity share for formerly owner-occupied properties where the equity is returned to the former owner after a sale of the property (except the tax sale purchaser retains a premium of 10% or $20,000, whichever is less), and additional measures to ensure "clean hands" of purchasers. The Emergency FY15 BSA and FY15 BSA (each as defined herein) provide further relief for homeowners that include limiting the threshold for going to tax sale to $2,500 in delinquent tax for residential properties only, creating a forbearance of $7,500 in delinquent tax for homestead properties, providing for mandatory pre-tax sale notices, and granting interest-free tax deferrals for low-income seniors who are also long-term homeowners in the District.

On September 17, 2013, the Council passed the Tax Lien Compensation and Relief Reporting Emergency Act of 2013 (the "Emergency Reporting Act"), and on October 1, 2013, the Council passed the Tax Lien Compensation and Relief Reporting Temporary Amendment Act of 2013 that became effective on December 13, 2013 (the "Temporary Reporting Act"). Both acts required the CFO to (i) review all residential real property tax liens sold between September 1, 2003 and September 1, 2013, (ii) consider whether certain real property tax liens, sales and foreclosures were the result of excusable neglect or other equitable circumstances that warrant relief, (iii) identify the amount of funds needed to compensate persons for whom an equitable remedy would provide substantial justice, and (iv) require a report on these matters to the Council by January 31, 2014. The Emergency Reporting Act expired on January 2, 2014. The Temporary Reporting Act expired on July 25, 2014. On January 31, 2014, OIO submitted its first report on the foregoing matters to the Council that included a review of all residential real property tax liens sold between September 1, 2003 and September 1, 2013 where the taxes due were less than $2,500 and specifically addressed tax liens where the right of redemption was foreclosed by the Superior Court. OIO submitted its second report on the foregoing matters on October 2, 2014, which included a review of a larger set of properties redeemed from residential real property tax liens during the same period and not covered by the first report. The OIO reports did not include a determination of circumstances that would warrant relief nor the amount of funds necessary to provide equitable relief.

Data Relating to Assessments, Collections and Valuations. Tables 8-10 provide information relating to the real property tax levies and collections for the past five years, the changes in the assessed value of residential, commercial and tax-exempt real property in the District over time and the principal property taxpayers.

**Table 8. Real Property Tax Levies and Collections (All Classes)[1]**
Last Five Fiscal Years
($ in thousands)

| | Current Levy | | | Prior Years | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year Ended Sept. 30 | Levy | Collections | Percent Collected | Outstanding Balances Billed | Collections | Percent Collected | Billed | Collected | Total |
| 2010 | $1,792,100 | $1,735,602[2] | 96.8% | $144,883 | $ 94,683[1] | 65.4% | $1,936,983 | $1,830,285 | 94.5% |
| 2011 | 1,639,902 | 1,610,533 | 98.2 | 226,333 | 111,465 | 49.2 | 1,866,235 | 1,721,998 | 92.3 |
| 2012 | 1,814,958 | 1,784,196 | 98.3 | 152,954 | 78,989 | 51.6 | 1,967,912 | 1,863,185 | 94.7 |
| 2013 | 1,909,967 | 1,872,534 | 98.0 | 145,546 | 82,977 | 57.0 | 2,055,513 | 1,955,511 | 95.1 |
| 2014 | 2,000,814 | 1,969,905 | 98.5 | 139,400 | 80,076 | 57.4 | 2,140,214 | 2,049,981 | 95.8 |

(1) Table 8 reflects a modification to the tax levy data previously reported, which included new billings of prior year tax, penalty and interest amounts due. Data has been reformatted to specifically identify prior year amounts included in the annual amounts billed.
(2) Previously reported collections for 2010 include tax overpayments for both the current levy and prior year balances of $10,940 and $2,361, respectively.

Source: District's CAFR for Fiscal Year 2014; Statistical Section, Exhibit S-2F.

## Table 9. Assessed Value of Taxable Property[1]

Last Ten Fiscal Years

($ in thousands)

| Fiscal Year | Estimated actual value: Commercial Property | Estimated actual value: Residential Property[2] | Total Taxable | Tax Exempt | Total Value | Total Direct Tax Rate[3] | Tax exempt as a % of total actual value |
|---|---|---|---|---|---|---|---|
| 2005 | $36,905,213 | $49,982,554 | $86,887,767 | $43,219,725 | $130,107,492 | 1.37 | 33.2 |
| 2006 | 40,400,447 | 58,090,888 | 98,491,335 | 59,664,865 | 158,156,200 | 1.34 | 37.7 |
| 2007 | 51,748,487 | 73,126,786 | 124,875,273 | 57,690,545 | 182,565,818 | 1.31 | 31.6 |
| 2008 | 61,557,827 | 81,400,361 | 142,958,188 | 67,869,520 | 210,827,708 | 1.30 | 32.2 |
| 2009 | 68,495,502 | 84,544,053 | 153,039,555 | 81,211,121 | 234,250,676 | 1.29 | 34.7 |
| 2010 | 68,254,862 | 81,862,427 | 150,117,289 | 82,113,504 | 232,230,793 | 1.30 | 35.4 |
| 2011 | 59,224,100 | 80,063,402 | 139,287,502 | 81,528,158 | 220,815,660 | 1.25 | 36.9 |
| 2012 | 65,903,077 | 80,598,880 | 146,501,957 | 83,399,263 | 229,901,220 | 1.26 | 36.3 |
| 2013 | 70,337,945 | 81,406,777 | 151,744,722 | 84,690,034 | 236,434,756 | 1.23 | 35.8 |
| 2014 | 74,834,806 | 85,465,264 | 160,300,070 | 87,287,954 | 247,518,024 | 1.24 | 35.3 |

(1) Assessed value is 100% of estimated actual value.

(2) After deduction of homestead deduction and credits against tax for 2005-2007. Does not reflect: (i) the 2005 cap on increases in assessments of 12% for class 1 real properties with homestead deductions; or (ii) the 2006-2012 cap on increases in assessments of 10% for Class 1 real properties with homestead deductions. After homestead deductions for 2008-2014.

(3) The total direct tax rate is the weighted rate of all taxable real property, obtained by multiplying the weighted rate by the percentage of the total value of real property for each class.

Source: District's CAFR for Fiscal Year 2014; Statistical Section, Exhibit S-2A.

## Table 10. Principal Property Taxpayers

Fiscal Year 2014

($ in thousands)

| Taxpayer | Taxable Assessed Value | % of Total Taxable Assessed Value |
|---|---|---|
| CC OWNER LLC | $725,843 | 0.453% |
| JBG/Federal Center LLC | 636,508 | 0.397 |
| 555 12TH REIT LLC | 543,860 | 0.339 |
| CARR CRHP PROPERTIES LLC | 516,653 | 0.322 |
| WASHINGTON SQUARE LIMITED PARTNERSHIP | 476,951 | 0.298 |
| UNITED BROTHERHOOD CRPT JNR AM NATL H S FD | 446,115 | 0.278 |
| WARNER INVESTMENTS LP | 383,905 | 0.239 |
| TWO CON LLC | 362,687 | 0.226 |
| SECOND ST HOLDING LLC | 355,002 | 0.221 |
| GEORGE WASHINGTON UNIVERSITY | 346,553 | 0.216 |

Source: District's CAFR for Fiscal Year 2014; Statistical Section, Exhibit S-2D.

***Sales and Use Taxes***. This group of taxes generates the third largest proportion of Local General Fund Revenues. The District levies a general sales tax of 5.75% on the sale of tangible property, selected services, medical marijuana, some sweetened beverages and food sold in vending machines. Other sales and use tax rates range from 10.0% to 18.0%. A portion of these taxes are dedicated to paying debt service on revenue bonds issued by WCSA to finance the construction of the Walter E. Washington Convention Center and a hotel in connection with the Convention Center and to paying operating expenses of the WCSA. The convention center taxes are collected by the District in accordance with certain lockbox and collection agreements and consist of 4.45% of the gross receipts for the sale or charges for any hotel room in the District and 1% of the gross receipts from the sale or charges made in the District for restaurant meals, alcoholic beverages consumed on premises and rental vehicle charges. In addition, a portion of general sales taxes collected in certain areas of the District are dedicated to paying debt service on District TIF bonds and notes.

***Gross Receipts Taxes***. The District levies a tax on the gross receipts of gas, electric and local telephone companies. The effective rate for gas and local telephone companies is 11% of gross receipts from non-residential (i.e., commercial) customers and 10% of gross receipts from residential customers. One-eleventh of the tax on the gross receipts from non-residential customers is deposited into the Ballpark Revenue Fund (as hereinafter defined) to be used for debt service on the Ballpark Bonds. See "INDEBTEDNESS – Summary of Statutory Debt Provisions – *Ballpark Financing*" herein.

The District also collects a tax of $0.007 for each kilowatt-hour of electricity delivered to end-users in the District of Columbia. An additional $0.0007 for each kilowatt-hour of electricity delivered to non-residential end-users in the District of Columbia is deposited into the Ballpark Revenue Fund to be used for debt service on the Ballpark Bonds. These taxes are collectively referred to herein as the "Ballpark Utilities Tax."

Beginning January 1, 2005, the District began collecting a gross receipts tax on certain businesses within the District, in accordance with the following schedule (the "Ballpark Fee"):

**Table 11. Ballpark Fee**

| Gross Receipts | Fee |
|---|---|
| $ 5,000,000 - $ 8,000,000 | $ 5,500 |
| $ 8,000,001 - $12,000,000 | $10,800 |
| $12,000,001 - $16,000,000 | $14,000 |
| Greater than $16,000,001 | $16,500 |

On or before December 1 of each year, the CFO is required to compute the amount of the Ballpark Fee collected in the prior Fiscal Year and the amount estimated to be collected in the then-current Fiscal Year. If the estimate for the current Fiscal Year is less than $14 million, plus any amount necessary to replenish any reserve funds established by the ballpark trust indenture and to meet any projected debt service shortfalls on Ballpark Bonds, the CFO must calculate an adjustment of the schedule above to provide for receipt in the current Fiscal Year of $14 million plus any additional amounts to cover projected shortfalls as described. To date, the CFO has not had to adjust the schedule.

***Other Local General Fund Revenues***. The District collects additional local General Fund revenues through a variety of smaller taxes and fees. In addition to those taxes and fees, in Fiscal Year 2000, the District began receiving funds pursuant to the Master Settlement Agreement between certain states and localities and the major U.S. tobacco companies. During Fiscal Years 2001 and 2006, the District sold to the Tobacco Corporation substantially all of its right, title and interest in the amounts payable to the District in future years under the Master Settlement Agreement in exchange for receiving the proceeds of bonds issued in 2001 and 2006, the repayment of which is secured by payments under the Master Settlement Agreement.

***Federal Revenues***. In addition to the local General Fund revenues, the District receives certain amounts from the federal government for various purposes. See "THE DISTRICT OF COLUMBIA – Federal Funding."

***Estimated Impact of Tax Reductions on Local General Fund Revenues***. As part of the Fiscal Year 2015 Approved Budget, the Council enacted certain tax cuts and changes set forth in the Fiscal Year 2015 Budget Support Emergency Act of 2014, enacted July 14, 2014 (D.C. Act 20-377) (the "Emergency FY15 BSA") and the Fiscal Year 2015 Budget Support Act of 2014, effective February 26, 2015 (D.C. Law 20-750) (the "FY15 BSA", together with the Emergency FY15 BSA, the "BSA"). The BSA sets forth tax cuts and changes that encompass real property taxes, individual and business income taxes and sales taxes. The BSA provides limited property tax exemptions to several properties in the District and allows eligible seniors over the age of 75 who have lived in the District for more than 25 years to defer payment of property taxes at reduced or no interest charge. The changes in the BSA to personal and business income taxes are broader. The BSA reduces the marginal tax rate on individual income of $40,000 to $60,000 from 8.5% to 7.0%, and reduces the incorporated and unincorporated business tax rate from 9.975% to 9.4%, effective January 1, 2015. The BSA also provides tax relief for certain senior citizens based on specified factors, including age and gross income, establishes a single weighted sales apportionment factor for business income purposes, exempts certain entities that trade on their own accounts from the Unincorporated Business Franchise Tax, and institutes an income tax credit for conversion of vehicles to run on alternative fuels and installation of alternative fuel charging stations. In addition, the Fiscal Year 2015 Approved Budget provides for additional staffing at the Office of Tax and Revenue to strengthen and enhance tax collections (primarily income tax and business franchise tax). The BSA also broadens the sales tax base and modifies tobacco taxation. The net effect of these changes is estimated to reduce District revenues by approximately $29.7 million in Fiscal Year 2015, $26.8 million in Fiscal Year 2016, and $28.4 million in Fiscal Year 2017. Net revenues are estimated to increase by approximately $35.2 million in Fiscal Year 2018. The BSA also establishes certain tax reductions and changes that do not have a fiscal impact in Fiscal Year 2015.

Table 12 describes the estimated revenue reductions for Fiscal Years 2015 through 2018 upon implementation of the tax reductions and changes, and based on calculation methods applicable to each tax category. The actual changes in tax revenues could vary from these estimates. Table 12 does not include certain non-tax revenue reductions that are estimated to total approximately $120,000 in each fiscal year through 2018.

**Table 12. Tax Reductions and Changes and Estimated Revenue Reductions**
Fiscal Years 2015-2018
($ in thousands)

| Revenue Source | FY 2015 | FY2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|
| Property Tax | ($4,872) | ($1,825) | ($1,777) | ($1,720) |
| Income Tax | | | | |
| Individual Income Tax | (36,041) | (36,320) | (37,949) | (39,083) |
| Business Income Taxes | (4,943) | (6,061) | (6,242) | (2,478) |
| Sales/Use Tax | 16,200 | 17,379 | 17,561 | 75,399 |
| Excise Tax | - | - | - | 3,116 |
| **TOTAL** | **($29,656)** | **($26,827)** | **($28,407)** | **$35,234** |

***Conditional Tax Reductions***. The BSA also directs additional tax cuts, including further reduction of individual income tax rates, further reduction of the business franchise tax rate, and an increase in standard deductions and personal exemptions (the "Additional Tax Cuts") based on certain conditions and priorities. None of the conditions for implementation of any of the Additional Tax Cuts in Fiscal Year 2016 were met.

After the budget and financial plan for Fiscal Year 2016 has been approved or deemed approved by Congress, any recurring revenues in a quarterly revenue estimate preceding any subsequent fiscal year (net of the dedicated deposit to the Pay-as-you-go Capital Account pursuant to D.C. Official Code § 47-392.02(f)), that exceed the local revenue incorporated in the approved budget and financial plan for that fiscal year (the "Excess Revenues"), will be used to continue the implementation of the Additional Tax Cuts (assuming they had not otherwise already been fully implemented) beginning on January 1 of each applicable year in accordance with the priorities set forth in the BSA, and only to the extent that the Excess Revenues equal to or exceed the cost of the Additional Tax Cuts. The actual cost of the Additional Tax Cuts will be recalculated on an annual basis and reported in each applicable February revenue estimates issued by the CFO.

**Summary of General Fund Expenditures**

The following are major categories of General Fund expenditures.

***Human Support Services***. This category includes expenditures for services essential to the health and well-being of the District's residents. It encompasses the operations of the Department of Human Services and the Department of Health, which provide health, social and rehabilitative programs and administer the major federal grant-supported assistance programs, including Medicaid and Temporary Assistance to Needy Families, the successor program to Aid to Families with Dependent Children. This category also includes parks and recreation, mental health, youth rehabilitation services and child and family services.

Also in this category is the District's financing of St. Elizabeths Hospital, a psychiatric institution serving District residents and certain federal beneficiaries. The federal government has financial responsibility for certain categories of patients, including those referred by the federal courts and those referred by federal facilities.

In Fiscal Year 2014, the human support services General Fund expenditures totaled $1.73 billion, representing approximately 24.6% of all General Fund expenditures. The Fiscal Year 2015 Approved Budget includes human support services General Fund expenditures of $1.89 billion, representing approximately 24.6% of all General Fund expenditures. The Fiscal Year 2016 Proposed Budget (as defined herein) includes human support services General Fund expenditures of $1.89 billion, representing approximately 23.8% of all General Fund expenditures.

After providing approximately $97.1 million in support between November 2007 and July 2010 to the former owners of the United Medical Center ("UMC"), the only hospital in the District of Columbia east of the Anacostia River, numerous defaults under the loan and grant documents forced the District to foreclose on UMC on July 9, 2010. The District created the Not-for-Profit Hospital Corporation, an independent instrumentality of the District, to operate UMC following such foreclosure. From July 2010 through the end of Fiscal Year 2013, the District provided UMC with an additional $24.7 million of operating subsidies. During Fiscal Year 2014, the District provided UMC $14.8 million, of which $2.7 million was provided for operating activities associated with specific program expansions and physician recruitment activities, $5.5 million for implementation of Meaningful Use required under the Affordable Care Act, and $6.7 million for Routine Capital and Deferred Maintenance needs. UMC ended

Fiscal Year 2014 with an audited $2.1 million loss from operations, excluding the $2.7 million operating subsidy provided by the District in Fiscal Year 2014.

However, for the foreseeable future, UMC will not be able to internally fund all replacements to, as well as additional, capital improvements without a District subsidy. For UMC capital improvements, the District budgeted District funds in the amount of $30 million for Fiscal Year 2014 (much of which were carried forward to Fiscal Year 2015) and an additional $15.1 million for Fiscal Year 2015. The Mayor's Fiscal Year 2016 Proposed Budget includes an additional $25.2 million of District funds for UMC's capital improvements, but no funds for operating expenses. It is anticipated that the District's total contribution to UMC (including information technology upgrades required by the federal Patient Protection and Affordable Care Act ("ACA"), routine and deferred maintenance capital costs, construction of two ambulatory care centers and improvements to the main hospital building) could cost an additional $98.7 million in Fiscal Years 2017 through 2019.

Beginning in Fiscal Year 2012, UMC implemented a program to reduce operating expenses, increase patient volume and improve its collections. In March 2013, the District retained Huron Consulting Services, LLC ("Huron"), to review UMC's operations and to prepare a strategic plan to improve UMC's financial and medical operations and better prepare UMC for an initial partnership relationship with another health care provider and possible eventual transfer of UMC to that partner. The strategic plan was approved by UMC's Board of Directors and the Mayor's Office. A portion of Huron's contract was extended seven months to run through the end of Fiscal Year 2015, at UMC's expense (the District paid Huron's costs in Fiscal Years 2013 and 2014).

The District and Huron have identified Howard University (not the Howard University Hospital) and its operating partner, Paladin Healthcare Capital, as the potential partner who is expected to acquire UMC's operations and lease the building, with the option to eventually acquire the building as well. The proposed Purchase and Sale Agreement and Lease have not been finalized or submitted to UMC's Board of Directors, the Mayor's Office or the District Council for review and approval. At this time the District has not established a definitive timetable for the sale, transfer or other action regarding UMC.

Recently, the Centers for Medicare & Medicaid Services gave UMC a one-star rating (out of a maximum five-star rating system) based on 2013 and early 2014 patients' appraisals of hospital qualities that include how well doctors and nurses communicated, how well patients believed their pain was addressed, and whether they would recommend the hospital to others.

In January 2015, UMC received a new three-year accreditation from the Joint Commission, an independent, not-for-profit organization that accredits and certifies health care organizations and programs in the United States.

In addition, the District is engaged in litigation with several contractors/business partners of the former owners of UMC. This litigation is centered on allegations that the foreclosure of UMC was invalid and/or that the foreclosure resulted in financial loss to the plaintiffs. The Superior Court granted a motion of summary judgment in favor of the District and UMC in one of the cases, and in two other cases, the Superior Court granted motions to dismiss the cases. The plaintiffs have appealed the rulings, and one of the appeals was dismissed on March 16, 2015. The outcome of the remaining litigation is unknown at this time and, therefore, the District cannot predict the potential liability to the District, if any.

***Public Education***. On April 23, 2007, subsequent to its passage by the Council, the Mayor signed D.C. Law 17-9, the District of Columbia Public Education Reform Amendment Act of 2007 (the "School Reform Act"), which transfers significant control over the budget, operation and management of the D.C. Public Schools system ("DCPS") from the school board to the Mayor. Following Congressional enactment of legislation amending the Home Rule Act, the School Reform Act became law.

In addition to DCPS, charter schools, special education programs, the Office of the State Superintendent of Education and the State Board of Education, the School Reform Act also affects spending for the Teachers' Retirement Program, the Public Library System, non-public tuition assistance and the subsidy to the University of the District of Columbia (the "University").

Public education expenses also include the District of Columbia State Board of Education ("SBOE"), a newly established agency pursuant to the "State Board of Education Personnel Authority Amendment Act of 2012" (D.C. Law 19-284, effective April 27, 2013). This agency was established to monitor and provide policy recommendations regarding education in the District.

In Fiscal Year 2014, General Fund public education expenditures totaled $1.74 billion, which equaled approximately 24.7% of all General Fund expenditures. The Fiscal Year 2015 Approved Budget includes General Fund public education expenditures of $1.88 billion, totaling approximately 24.4% of all General Fund expenditures. The Fiscal Year 2016 Proposed Budget includes General Fund public education expenditures of $1.90 billion, totaling approximately 24.0% of all General Fund expenditures.

During the 2013-2014 school year, DCPS operated 111 public schools and alternative and special education learning centers serving students from pre-kindergarten through high school. In the 2013-2014 school year, the audited enrollment for DCPS was 46,393 students.

In addition to traditional public schools, the District's public education system also includes public charter schools, which are under the oversight of the District of Columbia Public Charter School Board. There were 60 public charter schools operating during the 2013-2014 school year. Total public charter school audited enrollment for school year 2013-2014 was 36,565, an increase of 8.9 percent over the prior year.

Under the District's Uniform Per Student Funding Formula ("UPSFF") and Congressional mandates, the District generally must fund students at approved public charter schools at the same level as students that attend DCPS. The UPSFF provides a per-student base foundation funding level as well as weighting factors for grade level. In addition, the UPSFF assigns additional funds for special education categories, English language learners and at-risk students through add-on weights.

On July 30, 2014, the D.C. Association of Chartered Public Schools and two individual charter schools filed a lawsuit against the District seeking declaratory and injunctive relief to prohibit the District from using different methodologies for calculating enrollments and per pupil payments for DCPS and charter schools. The matter is in a preliminary stage, with oral arguments on the District's motion to dismiss scheduled for June 16, 2015. The District is unable to estimate the potential impact on public education expenditures as a result of this lawsuit.

The Department of General Services ("DGS") manages the District's "vertical" construction projects (including those of DCPS); acquires and disposes of real property; manages building space; and provides building services for facilities owned and occupied by the District, including engineering services, custodial services, security services, energy conservation and utilities management. The Fiscal Year 2015 Approved Budget included a six-year capital improvement plan for DCPS, which will be implemented by DGS, totaling $1.60 billion in income tax secured revenue bond and/or general obligation bond funding. For Fiscal Year 2015 alone, $434 million has been proposed for DCPS capital projects. The Fiscal Year 2016 Proposed Budget includes $335 million for DCPS capital project spending in Fiscal Year 2016 alone.

According to the federally required October 6, 2014 Child Count, the District served 12,173 students with disabilities in the 2014-2015 school year. Of these 12,173 students, 11,170 were served in District public school programs and 1,003 were served in non-public schools at the District's expense. No students were served by public schools in surrounding jurisdictions through tuition agreements. The 1,003 students who attended non-public schools at the District's expense were served in those programs pursuant to the requirements of the Individuals with Disabilities Education Act ("IDEA") or through placement into non-public residential facilities by the Department of Youth Rehabilitation Services, the Child and Family Services Agency, or the Department of Mental Health. Where appropriate and permissible under IDEA and local law, the District has set a goal to return children in non-public schools to public school facilities in the District.

The District also provides financial support to the University, a land-grant institution offering higher education to the public. In Fiscal Years 2013 and 2014, the District provided approximately $65.6 million and $66.7 million, respectively, to the University, or about 1% of total General Fund expenditures in each year. The Fiscal Year 2015 Approved Budget includes approximately $72.5 million for the University, or about 0.9% of total General Fund expenditures. The Fiscal Year 2016 Proposed Budget includes $67.4 million for the University, or about 0.9% of total General Fund expenditures.

***Public Safety and Justice***. This category includes the Metropolitan Police Department, the Fire and Emergency Medical Services Department, the Department of Corrections, the National Guard, the Homeland Security and Emergency Management Agency, the Office of Unified Communications, the Department of Forensic Sciences, the Office of the Chief Medical Examiner, the Office of Police Complaints and the District's retirement contributions for police officers and firefighters.

In Fiscal Year 2014, General Fund public safety and justice expenditures totaled $1.05 billion, representing approximately 14.9% of all General Fund expenditures. The Fiscal Year 2015 Approved Budget includes General Fund public safety and justice expenditures totaled $1.06 billion, representing approximately 13.8% of all General Fund expenditures. The Fiscal Year 2016 Proposed Budget includes General Fund public safety and justice expenditures of $1.15 billion, representing approximately 14.5% of all General Fund expenditures.

The Court of Appeals has affirmed an arbitrator's decision pursuant to the Fair Labor Standards Act to award the District's firefighters overtime pay adjustments estimated to be between $43 and $45 million in the aggregate. The time to provide notice of further appeal has expired, and settlement negotiations based on the Court's affirmance are ongoing.

***Public Works***. This category includes the Department of Public Works ("DPW"), the District Department of Transportation ("DDOT"), the Department of Motor Vehicles ("DMV"), the Department of the Environment ("DDOE") and the Washington Metropolitan Area Transit Authority ("WMATA"). DDOT is responsible for transportation-related operations such as street maintenance and repair and snow removal. DPW is responsible for trash collection, street cleaning and parking enforcement. DMV is responsible for driver, vehicle and adjudication services for District residents. DDOE is responsible for creating environmental protection, education and enforcement standards, providing natural resource conservation techniques and supplying energy assistance programs to District residents and businesses. WMATA is responsible for planning, developing, building, financing and operating a regional bus and rail transportation system.

In Fiscal Year 2014, General Fund public works expenditures totaled $623 million, representing approximately 8.9% of all General Fund expenditures. The Fiscal Year 2015 Approved Budget includes General Fund public works expenditures of $688 million, representing approximately 9.0% of all General

Fund expenditures. The Fiscal Year 2016 Proposed Budget includes General Fund public works expenditures of $732 million, representing approximately 9.2% of all General Fund expenditures.

***Employee Benefits***. District full-time employees receive pension benefits through the federally-administered Civil Service Retirement System ("CSRS"), the U.S. Social Security System ("Social Security"), or the District's retirement programs. In addition, the District provides health and life insurance benefits to retirees of the District first employed after September 30, 1987. Retirees of the District government first employed before October 1, 1987 remain eligible for federal health and life insurance benefits. For more information on employee benefits provided to District employees, see "RETIREMENT PROGRAMS" herein and Notes 9 and 10 to the District's CAFR for Fiscal Year 2014.

***The discussion below is based, in part, on projections and forward-looking statements related to Fiscal Year 2015. No assurance can be given that the budget estimates and forward-looking statements discussed below will be realized. The accuracy of the budget estimates and forward-looking statements contained under the caption "FISCAL YEAR 2015 APPROVED BUDGET AND FINANCIAL PLAN" cannot be verified until after the close of such Fiscal Year and the completion of the related audit. In addition, the accuracy of all projections and forward-looking statements is dependent on a number of factors, including: (1) general economic factors that affect local source revenues such as sales taxes and individual income taxes, (2) the effectiveness of monitoring agency expenditures, (3) the ability of the District to meet spending reduction initiatives, (4) the amount of federally mandated expenditures, (5) year-end accruals of revenues and expenses, and (6) the implementation of new federal legislation or initiatives.***

## FISCAL YEAR 2015 APPROVED BUDGET AND FINANCIAL PLAN

The Mayor submitted the proposed Fiscal Year 2015 Budget and Financial Plan, including both the operating and capital budgets, to the Council on April 3, 2014 (the "Fiscal Year 2015 Proposed Budget"). After Council markup and approval, the District transmitted the Fiscal Year 2015 Proposed Budget, including both the operating and capital budgets, to the President on August 7, 2014 for submission to Congress. The Fiscal Year 2015 Proposed Budget was approved as part of the FY15 Appropriations Act. The District's Fiscal Year 2015 Budget is hereinafter referred to as the "Fiscal Year 2015 Approved Budget." For a further discussion of congressional appropriations and the spending authorization in effect for Fiscal Year 2015, see "BUDGETING AND FINANCIAL PROCEDURES – General – *Federal Appropriations for Fiscal Years 2015 and 2016*."

The figures in the narrative describing the Fiscal Year 2015 Approved Budget include certain policy proposals. Table 14 does not reflect such policy proposals by fund source, but groups them in the "Revenue Proposals" line (line 15). As a result, the figures in the narrative for each fund source could be higher or lower than the corresponding line item in Table 14.

The Fiscal Year 2015 Approved Budget calls for General Fund expenditures totaling approximately $7.69 billion, of which $6.80 billion is from local funds, $304 million is from dedicated taxes, and $585 million is from special purpose non-tax revenue funds. General Fund revenue totals $7.51 billion, of which $6.66 billion is from local funds, $298 million is from dedicated taxes and $552 million is from special purpose non-tax revenue funds. These revenues include a net increase of $2 million of policy proposals impacting General Fund revenues, of which (i) $30 million is a reduction from local funds; (ii) $29 million is an increase from dedicated taxes, and (iii) $3 million increase is from special purpose non-tax revenue funds. Total General Fund resources are $7.70 billion, which consists of $7.51 billion of revenue, $149 million of fund balance use, $31 million of transfers from other funds and $6 million of bond proceeds for issuance costs.

Total Fiscal Year 2015 Gross Funds resources are $12.6 billion, including the $7.7 billion of General Fund resources, $3.1 billion of federal resources, $2 million of private resources, and $1.8 billion of enterprise-type resources.

The total Fiscal Year 2015 Gross Funds expenditure budget of $12.6 billion includes $7.7 billion of General Fund budget, $ 3.1 billion of federal resources budget, $2 million of private resources budget, and $1.8 billion of enterprise-type budgets.

The $12.6 billion budget is composed of the following spending priorities: (i) $4.4 billion for Human Support Services, (ii) $2.2 billion for Public Education System, (iii) $1.2 billion for Public Safety and Justice, (iv) $1.1 billion for Financing and Other, (v) $717 million for Public Works, (vi) $761 million for Governmental Direction and Support, (vii) $481 million for Economic Development and Regulation, and (viii) $1.8 billion for the Enterprise Fund.

The Fiscal Year 2015 Approved Budget uses $148.6 million in General Fund balance, comprised of $108.2 million of local fund balance, $6.8 million of dedicated taxes fund balance and $33.5 million of special purpose revenue fund balance. The local fund balance includes additional Fiscal Year 2014 revenue that was not budgeted but was held for Fiscal Year 2015 use. There will be deposits of $2.6 million into each of the Cash Flow Reserve Account and the Fiscal Stabilization Reserve Account.

The District's government is funded by a combination of local funds and other funds, including Enterprise Funds, Federal Payments, Special Purposes Revenues, Federal Grants and Medicaid, and Dedicated Taxes. Table 13 sets forth the local funds portion of the budgets for Fiscal Years 2014 and 2015 and a comparison between such budgets.

**Table 13. Local Funds Portion of Budgeted Expenditures**
(Fiscal Years 2014-2015)
($ in thousands)

| Appropriation Title | Fiscal Year 2014 Budget | Fiscal Year 2015 Budget | Variance |
|---|---|---|---|
| Governmental Direction and Support | $ 602,553 | $ 664,483 | 10.3% |
| Economic Development and Regulation | 162,340 | 195,935 | 20.7 |
| Public Safety and Justice | 987,421 | 1,006,278 | 1.9 |
| Public Education System | 1,699,649 | 1,859,610 | 9.4 |
| Human Support Services | 1,632,355 | 1,767,207 | 8.3 |
| Public Works | 433,487 | 471,157 | 8.7 |
| Financing and Other | 831,828 | 836,320 | 0.5 |
| **Total** | **$6,349,631** | **$6,800,989** | **7.1%** |

Note: Numbers may not add due to rounding.

Table 14 sets forth, among other things, the District's General Fund revenues, expenditures, and fund balances for Fiscal Years 2012-2014 (actual) and Fiscal Year 2015 (approved and proposed revised budget).

### Table 14. District's General Fund
### Fiscal Years 2012-2014 (Actual) and Fiscal Year 2015 (Approved and Proposed Revised Budget)

(Budgetary Basis, $ in thousands)

| | | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Approved (December 16, 2014) | FY 2015 Revised (April 2, 2015) |
|---|---|---|---|---|---|---|
| **1** | **Revenues** | | | | | |
| 2 | Taxes | $5,435,187 | $5,661,806 | $5,835,310 | $6,171,593 | $6,156,578 |
| 3 | Dedicated Taxes | 406,664 | 264,293 | 297,539 | 269,364 | 297,857 |
| 4 | General Purpose Non-Tax Revenues | 454,634 | 460,643 | 417,720 | 453,117 | 402,467 |
| 5 | Special Purpose (O-type) Revenues | 421,590 | 469,143 | 463,735 | 548,040 | 542,659 |
| 6 | Transfer from Lottery | 66,404 | 68,314 | 54,967 | 66,000 | 54,967 |
| 7 | Interfund transfer | 0 | 0 | 0 | 0 | 0 |
| **8** | **Subtotal, General Fund Revenues** | **6,784,479** | **6,924,199** | **7,069,271** | **7,508,114** | **7,454,528** |
| 9 | Bond Proceeds for Issuance Costs | 3,142 | 4,079 | 584 | 6,000 | 6,000 |
| 10 | Funds set aside from prior year | 0 | 0 | 0 | 108,229 | 108,229 |
| 11 | Interfund transfers from Local, O-type, and Dedicated Taxes Funds | 0 | 0 | 0 | 10,079 | 10,079 |
| 12 | Transfer from Federal and Private Resources | 1,478 | 2,363 | 1,488 | 2,363 | 2,363 |
| 13 | Transfer from Enterprise and Other Funds | 25,403 | 43,806 | 66,048 | 18,623 | 41,452 |
| 14 | Fund Balance Use | 5,769 | 18,442 | 98,417 | 40,341 | 106,308 |
| 15 | Revenue Proposals | 0 | 0 | 0 | 2,451 | 0 |
| **16** | **Total General Fund Resources** | **6,820,271** | **6,992,888** | **7,235,808** | **7,696,200** | **7,728,959** |
| **17** | | | | | | |
| 18 | **Expenditures (by Appropriation Title)** | | | | | |
| 19 | Governmental Direction and Support | 520,529 | 570,726 | 623,248 | 732,613 | 742,242 |
| 20 | Economic Development and Regulation | 198,185 | 299,940 | 338,198 | 373,645 | 407,803 |
| 21 | Public Safety and Justice | 948,964 | 981,755 | 1,050,891 | 1,060,066 | 1,059,584 |
| 22 | Public Education System | 1,567,337 | 1,664,514 | 1,737,859 | 1,879,150 | 1,861,399 |
| 23 | Human Support Services | 1,610,189 | 1,675,505 | 1,732,675 | 1,893,774 | 1,873,108 |
| 24 | Public Works | 482,900 | 496,094 | 556,047 | 625,657 | 628,849 |
| 25 | Financing and Other – Selected Agencies | 30,366 | 32,761 | 42,040 | 92,967 | 107,655 |
| 26 | Bond Issuance Costs (ZB0) | 4,348 | 4,420 | 983 | 6,000 | 6,000 |
| 27 | Debt Service (DS0, CP0, SM0, DT0, EL0) | 510,446 | 556,697 | 589,828 | 694,164 | 651,166 |
| **28** | **Subtotal, Operating Expenditures** | **5,873,264** | **6,282,412** | **6,671,768** | **7,358,035** | **7,337,806** |
| 29 | Paygo Capital (PA0) | 80,878 | 88,202 | 59,798 | 28,937 | 30,835 |
| 30 | Transfer to Trust Fund for Post-Employment Benefits | 109,800 | 107,800 | 86,600 | 91,400 | 91,400 |
| 31 | Repay Contingency Reserve Fund | 0 | 0 | 0 | 0 | 3,455 |
| 32 | Transfer to Enterprise Funds | 339,598 | 193,582 | 213,923 | 212,090 | 212,090 |
| **33** | **Total Expenditures and Transfers** | **6,403,540** | **6,671,994** | **7,032,089** | **7,690,462** | **7,675,586** |
| **34** | **Operating Margin before allocation to reserves** | **416,732** | **320,894** | **203,716** | **5,738** | **53,373** |
| **35** | **Reserved for subsequent years' expenditures** | **18,231** | **96,001** | **113,479** | **0** | **47,853** |
| **36** | **Cash Flow Reserve Account** | **193,971** | **(50,936)** | **48,086** | **2,619** | **0** |
| **37** | **Fiscal Stabilization Reserve Account** | **53,776** | **60,574** | **8,426** | **2,619** | **0** |
| **38** | **Operating Margin, Budget Basis** | **150,754** | **215,255** | **33,725** | **500** | **5,520** |
| 39 | | | | | | |
| **40** | **Composition of Cash Reserves** | | | | | |
| 41 | Emergency Cash Reserve Balance (2%) | 109,989 | 112,056 | 116,016 | 121,570 | 122,083 |
| 42 | Contingency Cash Reserve Balance (4%) | 229,113 | 227,434 | 239,401 | 243,140 | 244,166 |
| 43 | Cash Flow Reserve Account | 346,378 | 295,442 | 343,528 | 298,388 | 343,528 |
| 44 | Fiscal Stabilization Reserve Account | 95,551 | 156,125 | 164,551 | 159,071 | 164,551 |
| **45** | **Total Cash Reserves** | **781,031** | **791,056** | **863,496** | **822,169** | **874,328** |
| 46 | | | | | | |
| **47** | **Composition of Fund Balance** | | | | | |
| **48** | **Beginning General Fund Balance** | **1,104,894** | **1,506,521** | **1,748,928** | **1,593,268** | **1,873,658** |
| 49 | Operating Margin before allocation to reserves | 416,732 | 320,894 | 203,716 | 5,738 | 53,373 |
| 50 | Projected GAAP Adjustments (Net) | (9,331) | (60,044) | 19,431 | (10,000) | (10,000) |
| 51 | Fund Balance Use (see lines 10 and 14 above) | (5,769) | (18,442) | (98,417) | (148,570) | (214,537) |
| **52** | **Ending General Fund Balance** | **$1,506,526** | **$1,748,929** | **$1,873,658** | **$1,440,436** | **$1,702,494** |

Note: Numbers may not add due to rounding.

**Capital Budgeting and Financing**

*The following describes the District's six-year capital improvements plan (for Fiscal Years 2015-2020) as set forth in the Fiscal Year 2015 Approved Budget.*

The District's six-year capital improvements plan for Fiscal Years 2015-2020 anticipates funding from various sources, including long-term income tax secured revenue bonds and/or general obligation bonds, long-term grant anticipation revenue vehicles ("GARVEE") bonds, pay-as-you-go transfers from the General Fund, equipment lease/purchase financing, federal grants, private grants, a local match to the grants from the Federal Highway Administration, sales of assets and local transportation fund revenue, totaling $6.5 billion of capital funds over the course of the six-year period.

The six-year capital improvements plan assumes approximately $1.1 billion of income tax secured revenue bonds and/or general obligation bonds being issued to fund the District's capital improvements plan during Fiscal Year 2015 and approximately $4.03 billion of income tax secured revenue bonds and/or general obligation bonds being issued to fund the District's capital improvements plan over the course of the six-year period from 2015 through 2020, as set forth in Table 15.

The actual amount of capital projects financed with income tax secured revenue bonds or general obligation bonds each year will be re-evaluated in each annual budget development process and prior to each issuance and will depend on capital project priorities and the progress of such projects over their development life cycles, constrained by the District's intent to moderate its borrowing levels in order to prudently manage its debt ratios and debt burden. The District is implementing new systems and controls to better monitor planned and actual spending on approved capital projects. Based on this information, the District will determine the extent to which planned borrowing will be supplemented with other sources, such as General Fund revenue in the form of pay-as-you-go capital, to the extent that such other sources are available.

Table 15 summarizes the District's capital improvements plan for Fiscal Years 2015 through 2020, as set forth in the Fiscal Year 2015 Approved Budget. References to the issuance of bonds to fund the capital improvements plan may refer to either income tax secured revenue bonds or to general obligation bonds, either of which may be issued by the District for such purpose.

**Table 15. Fiscal Years 2015-2020 Capital Improvements Plan Funding Sources**
(Budgetary Basis)
($ in thousands)

| | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2015–FY 2020 Total |
|---|---|---|---|---|---|---|---|
| General Obligation/ Income Tax Bonds[1] | $1,077,764 | $839,193 | $569,172 | $170,966 | $758,034 | $615,646 | $4,030,775 |
| Master Equipment Lease/Purchase | 26,020 | 14,900 | - | - | 25,000 | 25,000 | 90,920 |
| Pay-As-You-Go | 6,450 | 44,674 | 111,591 | 159,544 | 164,122 | 169,376 | 655,757 |
| Sale of Assets | 6,500 | 27,225 | 2,475 | - | - | - | 36,200 |
| Private Grants | 1,100 | 6,250 | 11,250 | - | - | - | 18,600 |
| Local Transportation Fund Revenue | 22,487[2] | 28,066 | 29,847 | 34,630 | 33,272 | 33,059 | 181,361 |
| GARVEE Bonds | - | 67,770 | 117,290 | 106,230 | - | - | 291,290 |
| Local Highway Trust Fund | 37,685[3] | 37,162 | 35,163 | 30,162 | 31,306 | 31,306 | 202,785 |
| Federal Grants | 186,936 | 162,448 | 162,448 | 162,448 | 162,448 | 162,448 | 999,176 |
| **Total Funding** | **$1,364,941** | **$1,227,688** | **$1,039,236** | **$663,980** | **$1,174,182** | **$1,036,835** | **$6,506,862** |

(1) Does not reflect additional borrowing required to repay the General Fund for capital expenditures prior to a project receiving financing. Planned borrowing for such repayments in Fiscal Years 2015-2020 exceeds new capital budget allotments by $15 million in Fiscal Years 2015 and 2016, $10 million in Fiscal Year 2017, $12 million in Fiscal Year 2019, and $20 million in Fiscal Year 2020.

(2) Includes local revenues from utility marking service fees, public inconvenience fees and a portion of rights-of-way occupancy fees.

(3) Includes local revenues from motor fuel taxes and a portion of rights-of-way fees.

Table 15 does not include the issuance of TIF Bonds, PILOT Notes or refunding bonds, all of which the District may issue from time to time. See "INDEBTEDNESS – Long-Term Obligations – Economic Development Initiatives of the District" herein.

Table 16 sets forth the major categories of expenditure in the District's capital improvements plan for Fiscal Years 2015 through 2020.

**Table 16. Fiscal Years 2015-2020 Capital Improvements Plan Projected Expenditures**
($ in millions)

| Category | Amount |
|---|---|
| Department of Transportation | $2,608 |
| District of Columbia Public Schools | 1,600 |
| Washington Metropolitan Area Transit Authority | 721 |
| Department of Health Care Finance | 144 |
| District of Columbia Public Library | 324 |
| Department of Parks and Recreation | 219 |
| Office of the Deputy Mayor for Planning and Economic Development | 159 |
| Department of Public Works | 157 |
| Other | 575 |
| **Total** | **$6,507** |

The Fiscal Year 2011 Budget Support Act of 2010 (D.C. Law 18-223, effective September 24, 2010) (the "Fiscal Year 2011 BSA") created a Pay-as-you-go Capital Account to be used to reduce future District borrowing for capital purposes. The Pay-as-you-go-Capital Account is codified in D.C. Official Code § 47-392.02(f) (the "Pay-as-you-go-Capital Account Statute").

Pursuant to the Pay-as-you-go-Capital Account Statute, there is a base year in which the budget for such Fiscal Year, and each subsequent Fiscal Year, must include a Pay-as-you-go Capital Account. The annual amount of local funds to be deposited in the Pay-as-you-go Capital Account must equal the projected local funds revenue of each year, minus the local funds revenue in the budget approved in May of the previous year, multiplied by 25%. The base year described above has been modified by legislation several times. Presently, the base year is the Fiscal Year 2017 budget. The Fiscal Year 2016 Budget Support Act of 2015 (D.C. Bill 21-158, introduced April 9, 2015) includes a proposed change to the base year to the Fiscal Year 2019 budget.

***The discussion below is based, in part, on projections and forward-looking statements related to Fiscal Year 2015. No assurance can be given that the budget estimates and forward-looking statements discussed below will be realized. The accuracy of the budget estimates and forward-looking statements contained under the caption "FISCAL YEAR 2015 SUPPLEMENTAL BUDGET REQUEST" cannot be verified until after the close of such Fiscal Year and the completion of the related audit. In addition, the accuracy of all projections and forward-looking statements is dependent on a number of factors, including: (1) general economic factors that affect local source revenues such as sales taxes and individual income taxes, (2) the effectiveness of monitoring agency expenditures, (3) the ability of the District to meet spending reduction initiatives, (4) the amount of federally mandated expenditures, (5) year-end accruals of revenues and expenses, and (6) the implementation of new federal legislation or initiatives.***

## FISCAL YEAR 2015 SUPPLEMENTAL BUDGET REQUEST

On December 30, 2014, the Office of the Chief Financial Officer provided a revised revenue estimate, which showed a decrease of $83.4 million in Fiscal Year 2015 Local fund revenues. On February 27, 2015, a new revised revenue estimate showed an increase of $36.5 million in Fiscal Year 2015 Local fund revenues. The result of the two revisions was a net decrease of $46.9 million since the approval of the Fiscal Year 2015 Approved Budget. See "BUDGETING AND FINANCIAL PROCEDURES – Financial Procedures – *Revenue Estimates and Expenditure Projections*" herein. Based on the revised revenue estimates, the Mayor submitted a supplemental budget request to the Council on April 2, 2015 (the "Fiscal Year 2015 Supplemental Budget Request"). The Council is considering the Fiscal Year 2015 Supplemental Budget Request and is expected to approve such request, as amended by the Council, on May 27, 2015.

The Fiscal Year 2015 Supplemental Budget Request includes $43.0 million in debt service savings associated with restructuring of the District's long-term debt, including the refunding of the District's outstanding Certificates of Participation with Income Tax Bonds. Another $25.0 million in savings was obtained in the Department of Health Care Finance from reduced costs associated with personal care aides. In 15 other agencies, a total of $33.2 million of reductions were proposed. The Fiscal Year 2015 Supplemental Budget Request includes increases of $9.9 million for a reserve fund for the Southwest Waterfront Tax Increment Financing project and $3.5 million for repayment of the Contingency Reserve Fund. If adopted, the proposals in the Fiscal Year 2015 Supplemental Budget Request would result in a net expenditure reduction of $87.8 million.

The net revenue reduction of $46.9 million and the net expenditure reduction of $87.8 million would result in excess revenues of $40.9 million. Such excess revenues combined with the surplus of $5.2 million and an increase of excess tax increment financing revenues of $2.4 million in the Fiscal Year 2015 Approved Budget would result in an available amount of $48.4 million. The Mayor proposed to carry $47.9 million of such amount into the Fiscal Year 2016 Proposed Budget.

During Fiscal Year 2015, the Mayor has requested the use of a total of $17.8 million from the Contingency Reserve Fund for the following purposes: (i) to the Non-Departmental agency for severance pay, leave payout, and other transitional activities related to the November election,(ii) to the Department of Public Works to fund snow removal, (iii) to the Board of Elections to fund the Ward 8 special election after the death of Councilmember Marion Barry, (iv) to the Office of the Mayor to fund funeral services for Councilmember Marion Barry, (v) to the Department of Employment Services to cover disallowed costs as a result of workers compensation audits, (vi) to the Fire and Emergency Medical Services to cover option year 2 transportation resource associates to provide guidance and assistance with a corrective action plan and remedial measures within the agency, and (vii) to the Department of Forensic Sciences to assist with DNA testing, as well as the procurement of a consulting group to provide guidance and assistance with a corrective action plan and remedial measures within the agency. No repayments have been paid to date; however, the District anticipates replenishing any uses of the Contingency Reserve Fund in Fiscal Year 2015 by the close of such Fiscal Year, primarily via the Fiscal Year 2015 Supplemental Budget Request. The CFO has the authority to repay outstanding amounts during the Fiscal Year close if unassigned fund balance is available. If any amounts remain outstanding after the Fiscal Year 2015 close, the District would have to repay 50% during each of Fiscal Years 2016 and 2017.

***The discussion below is based, in part, on projections and forward-looking statements related to Fiscal Year 2016. No assurance can be given that the budget estimates and forward-looking statements discussed below will be realized. The accuracy of the budget estimates and forward-looking statements contained under the caption "FISCAL YEAR 2016 PROPOSED BUDGET AND FINANCIAL PLAN" cannot be verified until after the close of such Fiscal Year and the completion of the related audit. In addition, the accuracy of all projections and forward-looking statements is dependent on a number of factors, including: (1) general economic factors that affect local source revenues such as sales taxes and individual income taxes, (2) the effectiveness of monitoring agency expenditures, (3) the ability of the District to meet spending reduction initiatives, (4) the amount of federally mandated expenditures, (5) year-end accruals of revenues and expenses, and (6) the implementation of new federal legislation or initiatives.***

## FISCAL YEAR 2016 PROPOSED BUDGET AND FINANCIAL PLAN

The Mayor submitted the proposed Fiscal Year 2016 Budget and Financial Plan, including both the operating and capital budgets, to the Council on April 2, 2015 (the "Fiscal Year 2016 Proposed Budget"). In addition to providing appropriations for Fiscal Year 2015, the federal FY15 Appropriations Act authorized the District to spend its own local budget in Fiscal Year 2016 if there is not a congressional appropriations act or continuing resolution governing Fiscal Year 2016. See "BUDGETING AND FINANCIAL PROCEDURES – General – *Federal Appropriations for Fiscal Years 2015 and 2016*."

The figures in the narrative describing the Fiscal Year 2016 Proposed Budget include certain policy proposals. Table 18 does not reflect such policy proposals by fund source, but groups them in the "Revenue Proposals" line (line 15). As a result, the figures in the narrative for each fund source could be higher or lower than the corresponding line item in Table 18.

The Fiscal Year 2016 Proposed Budget calls for General Fund expenditures totaling approximately \$7.91 billion, of which \$7.02 billion is from local funds, \$312.5 million is from dedicated taxes and \$583.4 million is from special purpose non-tax revenue funds. General Fund revenue totals \$7.74 billion, of which \$6.89 billion is from local funds, \$314.4 million is from dedicated taxes, and \$533.7 million is from special purpose non-tax revenue funds. Such revenues include an increase of (i) \$36.1 million of policy proposals impacting General Fund revenues, of which \$26.0 million is from local funds, (ii) \$9.9 million is from dedicated taxes, and (iii) \$0.2 million from special purpose non-tax revenue funds. Total General Fund resources are \$7.91 billion, which consists of \$7.74 billion of revenue, \$115.7 million of fund balance use, \$50.7 million of transfers from other funds and \$6 million of bond proceeds for issuance costs.

Total Fiscal Year 2016 Gross Funds resources are \$12.95 billion, including the \$7.91 billion of General Fund resources, \$3.24 billion of federal resources, \$1.5 million of private and \$1.79 billion of enterprise-type resources.

The total Fiscal Year 2016 Gross Funds expenditure budget of \$12.95 billion includes \$7.91 billion of General Fund budget, \$3.24 billion of federal budget, \$1.5 million of private budget, and \$1.79 billion of enterprise-type budgets.

The $12.95 billion proposed budget is composed of the following spending priorities: (i) $4.44 billion for Human Support Services, (ii) $2.23 billion for Public Education System, (iii) $1.30 billion for Public Safety and Justice, (iv) $1.09 billion for Financing and Other, (v) $768.9 million for Public Works, (vi) $798.6 million for Governmental Direction and Support, (vii) $534.9 million for Economic Development and Regulation, and (viii) $1.79 billion for the Enterprise Fund.

The Fiscal Year 2016 Proposed Budget uses $115.7 million in General Fund balance, comprised of $72.9 million of local fund balance, $40,000 of dedicated taxes fund balance, and $42.7 million of special purpose revenue fund balance. The local fund balance includes additional Fiscal Year 2015 revenue that was not budgeted in the Fiscal Year 2015 Approved Budget but was held for Fiscal Year 2016 use.

The District's government is funded by a combination of local funds and other funds, including Enterprise Funds, Federal Payments, Special Purposes Revenues, Federal Grants and Medicaid, and Dedicated Taxes. Table 17 sets forth the Local funds portion of the budgets for Fiscal Years 2015 and 2016 and a comparison between such budgets.

**Table 17. Local Funds Portion of Budgeted Expenditures**
(Fiscal Years 2015-2016)
($ in thousands)

| Appropriation Title | Fiscal Year 2015 Approved Budget | Fiscal Year 2016 Proposed Budget | Variance |
|---|---|---|---|
| Governmental Direction and Support | $ 664,483 | $ 699,299 | 5.2% |
| Economic Development and Regulation | 195,935 | 242,214 | 23.6 |
| Public Safety and Justice | 1,006,278 | 1,088,503 | 8.2 |
| Public Education System | 1,859,610 | 1,879,291 | 1.1 |
| Human Support Services | 1,767,207 | 1,768,961 | 0.1 |
| Public Works | 471,157 | 503,789 | 6.9 |
| Financing and Other | 836,320 | 833,181 | -0.4 |
| **Total** | **$6,800,989** | **$7,015,238** | **3.2%** |

Note: Numbers may not add due to rounding.

Table 18 sets forth, among other things, the District's General Fund proposed revenues, expenditures, and fund balances for Fiscal Year 2016 (proposed budget) and Fiscal Years 2017-2019 (projected).

**Table 18. District's General Fund**
**Fiscal Year 2016 (Proposed Budget) and Fiscal Year 2017-2019 (Projected)**
(Budgetary Basis, $ in thousands)

| | | FY 2016 Proposed | FY 2017 Projected | FY 2018 Projected | FY 2019 Projected |
|---|---|---|---|---|---|
| **1** | **Revenues** | | | | |
| 2 | Taxes | $6,420,609 | $6,649,806 | $6,897,163 | $7,132,018 |
| 3 | Dedicated Taxes | 304,467 | 310,962 | 317,641 | 322,247 |
| 4 | General Purpose Non-Tax Revenues | 383,988 | 382,205 | 382,853 | 379,711 |
| 5 | Special Purpose (O-type) Revenues | 533,496 | 524,408 | 531,678 | 533,161 |
| 6 | Transfer from Lottery | 62,500 | 63,000 | 64,000 | 64,500 |
| 7 | Interfund transfer | 0 | 0 | 0 | 0 |
| **8** | **Subtotal, General Fund Revenues** | **7,705,060** | **7,930,381** | **8,193,336** | **8,431,636** |
| 9 | Bond Proceeds for Issuance Costs | 6,000 | 6,000 | 6,000 | 6,000 |
| 10 | Funds set aside from prior year | 47,853 | 0 | 0 | 0 |
| 11 | Interfund transfers from Local, O-type, and Dedicated Taxes Funds | 29,893 | 35,294 | 2,038 | 0 |
| 12 | Transfer from Federal and Private Resources | 2,363 | 2,363 | 2,363 | 2,363 |
| 13 | Transfer from Enterprise and Other Funds | 18,476 | 15,483 | 16,641 | 17,734 |
| 14 | Fund Balance Use | 67,819 | 0 | 0 | 0 |
| 15 | Revenue Proposals | 36,050 | 34,332 | 34,654 | 35,800 |
| **16** | **Total General Fund Resources** | **7,913,514** | **8,023,853** | **8,255,032** | **8,493,533** |
| 17 | | | | | |
| **18** | **Expenditures (by Appropriation Title)** | | | | |
| 19 | Governmental Direction and Support | 768,944 | 789,921 | 804,654 | 819,767 |
| 20 | Economic Development and Regulation | 423,347 | 360,274 | 368,171 | 370,922 |
| 21 | Public Safety and Justice | 1,145,178 | 1,157,705 | 1,175,747 | 1,193,455 |
| 22 | Public Education System | 1,900,266 | 1,927,708 | 1,949,422 | 1,972,215 |
| 23 | Human Support Services | 1,886,619 | 1,929,538 | 1,973,084 | 2,016,882 |
| 24 | Public Works | 655,099 | 663,277 | 678,160 | 692,946 |
| 25 | Financing and Other - Selected Agencies | 73,003 | 63,027 | 65,109 | 67,349 |
| 26 | Bond Issuance Costs (ZB0) | 6,000 | 6,000 | 6,000 | 6,000 |
| 27 | Debt Service (DS0, CF0, SM0, DT0, EL0) | 668,982 | 712,391 | 813,278 | 889,054 |
| **28** | **Subtotal, Operating Expenditures** | **7,527,439** | **7,609,842** | **7,833,625** | **8,028,589** |
| 29a | Paygo Capital (PA0) | 72,291 | 88,580 | 87,363 | 86,004 |
| 29b | Paygo Contingency | 0 | 0 | 4,924 | 38,273 |
| 30 | Transfer to Trust Fund for Post-Employment Benefits (RH0) | 95,400 | 101,800 | 107,500 | 112,900 |
| 31 | Repay Contingency Reserve Fund | 0 | 0 | 0 | 0 |
| 32 | Transfer to Enterprise Funds | 215,991 | 210,816 | 215,460 | 218,405 |
| 33 | Operating Impact of CIP | 0 | 12,314 | 5,660 | 8,862 |
| **34** | **Total Expenditures and Transfers** | **7,911,121** | **8,023,352** | **8,254,532** | **8,493,033** |
| **35** | **Operating Margin before allocation to reserves** | **2,393** | **500** | **500** | **500** |
| **36** | **Reserved for subsequent years' expenditures** | **0** | **0** | **0** | **0** |
| **37** | **Cash Flow Reserve Account** | **0** | **0** | **0** | **0** |
| **38** | **Fiscal Stabilization Reserve Account** | **0** | **0** | **0** | **0** |
| **39** | **Operating Margin, Budget Basis** | **2,393** | **500** | **500** | **500** |
| 40 | | | | | |
| **41** | **Composition of Cash Reserves** | | | | |
| 42 | Emergency Cash Reserve Balance (2%) | 129,804 | 134,146 | 136,395 | 138,694 |
| 43 | Contingency Cash Reserve Balance (4%) | 259,609 | 268,291 | 272,791 | 277,389 |
| 44 | Cash Flow Reserve Account | 343,528 | 343,528 | 343,528 | 343,528 |
| 45 | Fiscal Stabilization Reserve Account | 164,551 | 164,551 | 164,551 | 164,551 |
| **46** | **Total Cash Reserves** | **897,492** | **910,516** | **917,265** | **924,162** |
| 47 | | | | | |
| **48** | **Composition of Fund Balance** | | | | |
| **49** | **Beginning General Fund Balance** | **1,702,494** | **1,579,215** | **1,569,715** | **1,560,215** |
| 50 | Operating Margin before allocation to reserves | 2,393 | 500 | 500 | 500 |
| 51 | Projected GAAP Adjustments (Net) | (10,000) | (10,000) | (10,000) | (10,000) |
| 52 | Fund Balance Use (see lines 10 and 14 above) | (115,672) | 0 | 0 | 0 |
| **53** | **Ending General Fund Balance** | **$1,579,215** | **$1,569,715** | **$1,560,215** | **$1,550,715** |

Note: Numbers may not add due to rounding.

## Capital Budgeting and Financing

*The following describes the District's six-year capital improvements plan (for Fiscal Years 2016-2021) as set forth in the Fiscal Year 2016 Proposed Budget.*

The Mayor's proposed six-year capital improvements plan for Fiscal Years 2016-2021 anticipates funding from various sources, including long-term income tax secured revenue bonds and/or general obligation bonds, long-term grant anticipation revenue vehicles ("GARVEE") bonds, pay-as-you-go transfers from the General Fund, equipment lease/purchase financing, federal grants, private grants, a local match to the grants from the Federal Highway Administration, sales of assets and local transportation fund revenue, totaling $6.2 billion of capital funds over the course of the six-year period.

The proposed six-year capital improvements plan assumes approximately $921 million of income tax secured revenue bonds and/or general obligation bonds being issued to fund the District's capital improvements plan during Fiscal Year 2016 and approximately $4.01 billion of income tax secured revenue bonds and/or general obligation bonds being issued to fund the District's capital improvements plan over the course of the six-year period from 2016 through 2021.

Table 19 on the following page summarizes the District's proposed capital improvements plan for Fiscal Years 2016 through 2021, as set forth in the Fiscal Year 2016 Proposed Budget. References to the issuance of bonds to fund the capital improvements plan may refer to either income tax secured revenue bonds or to general obligation bonds, either of which may be issued by the District for such purpose.

**Table 19. Fiscal Years 2016-2021 Proposed Capital Improvements Plan Funding Sources**
(Budgetary Basis)
($ in thousands)

| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2016–FY 2021 Total |
|---|---|---|---|---|---|---|---|
| General Obligation/ Income Tax Bonds[1] | $921,461 | $710,797 | $402,426 | $654,316 | $784,191 | $539,173 | $4,012,363 |
| Master Equipment Lease/Purchase | 16,900 | 6,500 | - | 25,000 | 25,000 | - | 73,400 |
| Pay-As-You-Go | 26,274 | 46,000 | 46,000 | 46,000 | 178,128 | 70,999 | 413,401 |
| Sale of Assets | 13,816 | 24,916 | 1,000 | 1,000 | 1,000 | 1,000 | 42,732 |
| Private Grants | - | 5,000 | - | - | - | - | 5,000 |
| Local Transportation Fund Revenue | 46,017[2] | 42,580 | 41,363 | 40,004 | 38,791 | 38,791 | 247,546 |
| GARVEE Bonds | - | - | 185,500 | 64,100 | - | - | 249,600 |
| Local Highway Trust Fund | 22,504[3] | 25,716 | 26,710 | 27,848 | 28,842 | 28,626 | 160,246 |
| Federal Grants | 168,233 | 162,233 | 162,233 | 162,233 | 162,233 | 162,233 | 979,400 |
| **Total Funding** | **$1,215,205** | **$1,023,741** | **$865,231** | **$1,020,501** | **$1,218,186** | **$840,822** | **$6,183,687** |

(1) Does not reflect additional borrowing required to repay the General Fund for capital expenditures prior to a project receiving financing. Planned borrowing for such repayments in Fiscal Years 2016 – 2021 exceeds new capital budget allotments by $10 million in Fiscal Year 2017, $12 million in Fiscal Year 2019, and $20 million in Fiscal Year 2020.
(2) Includes local revenues from rights-of-way occupancy fees.
(3) Includes local revenues from motor fuel taxes.

Table 19 does not include the issuance of TIF Bonds, PILOT Notes or refunding bonds, all of which the District may issue from time to time. See "INDEBTEDNESS – Long-Term Obligations – *Economic Development Initiatives of the District*" herein.

Table 20 sets forth the major categories of expenditure in the District's capital improvements plan for Fiscal Years 2016 through 2021.

**Table 20. Fiscal Years 2016-2021 Proposed Capital Improvements Plan Projected Expenditures**
($ in millions)

| Category | Amount |
|---|---|
| Department of Transportation | $2,557 |
| District of Columbia Public Schools | 1,269 |
| Washington Metropolitan Area Transit Authority | 796 |
| District of Columbia Public Library | 261 |
| Department of Public Works | 199 |
| Office of the Deputy Mayor for Planning and Economic Development | 176 |
| Department of General Services | 152 |
| Department of Parks and Recreation | 149 |
| Department of Health Care Finance | 127 |
| Other | 498 |
| **Total** | **$6,184** |

## INDEPENDENT ENTITIES

The following section discusses borrowing by certain independent entities and instrumentalities of the District. By statute, the debt issued by these entities and instrumentalities is not a general obligation of the District and does not involve a pledge of the full faith and credit of the District.

*The District of Columbia Water and Sewer Authority*

The District of Columbia Water and Sewer Authority (commonly referred to as "D.C. Water") is an independent authority of the District of Columbia. D.C. Water was created in April 1996 under and pursuant to the Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996, D.C. Law 11-111, as amended and supplemented, and the District of Columbia Water and Sewer Authority Act of 1996, Pub. L. No. 104-184.

D.C. Water provides retail water and wastewater treatment services to the District of Columbia and wholesale wastewater conveyance and treatment services to Montgomery and Prince George's Counties in Maryland and Fairfax and Loudoun Counties in Virginia. The Authority is governed by a Board of Directors consisting of 11 principal and 11 alternate members. Six principal members are appointed by the Mayor of the District with advice and consent of the Council and five principal members are appointed by the Mayor on the recommendations of the user jurisdiction.

*Washington Convention and Sports Authority*

Washington Convention and Sports Authority ("WCSA") is an independent authority of the District government created to construct and operate a convention center in the District (the "Convention Center"), pursuant to the Washington Convention Center Authority Act of 1994, D.C. Law 10-188, as amended, including by the Washington Convention Center Authority and Sports and Entertainment Commission Merger Amendment Act of 2009 (the "WCSA Act").

In September 1998, the Washington Convention Center Authority, as predecessor to WCSA ("WCCA") issued $524,460,000 Senior Lien Dedicated Tax Revenue Bonds, Series 1998 (the "1998 Bonds") to finance a portion of the costs of the new Convention Center, which opened in March 2003. In February 2007, WCCA issued $492,525,000 Senior Lien Dedicated Tax Revenue and Refunding Bonds, Series 2007A (the "2007 Bonds"), which refunded the outstanding 1998 Bonds and provided funds to acquire land for a new convention center hotel, the Marriott Marquis, adjacent to the Convention Center, that opened on May 1, 2014 (the "Hotel").

In October 2010, WCSA issued its Senior Lien Dedicated Tax Revenue Bonds, Series 2010A and Series 2010B and its Senior Lien Dedicated Tax Revenue and Refunding Bonds, Series 2010C in the aggregate principal amount of approximately $249,220,000 to finance a portion of the costs of constructing the Hotel, and to refund a portion of the 2007 Bonds.

The 2007 Bonds and the 2010 Bonds are secured by certain specified tax revenues dedicated pursuant to the WCSA Act (the "Dedicated Taxes"). See "FINANCIAL INFORMATION – Summary of General Fund Revenues – *Sales and Use Taxes*." The 2010 Bonds are also secured by a TIF note from the District.

Each year the District Auditor is required to certify to the Mayor, the Council, the CFO, and the Chairman of WCSA whether the revenues projected to be realized in the upcoming Fiscal Year from the Dedicated Taxes, the projected operating revenues of WCSA, and any amounts in excess of the minimum required reserves for the upcoming Fiscal Year are sufficient to pay the projected operating and debt service expenditures and reserve requirements. If the certification of the District Auditor indicates that such projected revenues are insufficient to meet such projected expenditures, the Mayor must impose a surtax on the Dedicated Taxes for the upcoming Fiscal Year at a rate calculated according to a statutory formula intended to generate sufficient revenue to equal the difference between the projected expenditures and revenues. The District Auditor has determined for Fiscal Year 2015 that projected Fiscal Year 2015 Dedicated Taxes and WCSA's Fiscal Year 2015 projected revenues and excess reserves are sufficient to meet its Fiscal Year 2015 projected operating and debt service expenditures and reserve requirements. The District Auditor is in the process of reviewing the Fiscal Year 2016 sufficiency estimates.

*Washington Metropolitan Area Transit Authority*

The Washington Metropolitan Area Transit Authority (or WMATA) was created by interstate compact in 1967, with the consent of Congress, by the District, the State of Maryland, and the Commonwealth of Virginia ("Interstate Compact"), to construct a 103-mile, 83-station rapid transit system ("Metrorail"). WMATA was later authorized to purchase and operate several of the area's privately owned bus systems and to operate the Metrorail system (collectively, the "Metro System"). Metrorail construction began in 1967 and the final segment of the originally-planned system opened to passengers in January 2001. Construction to expand the Metrorail system westward to the Washington Dulles International Airport is underway in a multi-phased construction project. The first phase of the construction to Reston, Virginia opened to passengers in July 2014. The completion of the second phase, which will cost an estimated $2.7 billion, has been extended by approximately 13 months past the original opening date.

WMATA lacks a dedicated funding source for the Metro System, requiring it to rely on annual contributions from the federal government and the local jurisdictions, which are served by the Metro System (the "Contributing Jurisdictions"), to fund operations, maintenance, and capital improvement projects. With respect to the District, Maryland, and Virginia, the funds provided to WMATA for operations, maintenance, and capital improvement projects are allocated among such jurisdictions in WMATA's budget for each Fiscal Year. Based on figures in WMATA's Fiscal Year 2015 budget, the District, Maryland, and Virginia will each contribute approximately 37.4%, 37.7%, and 24.9%, respectively, in operating subsidies, and approximately 37.1%, 34.8%, and 28.1%, respectively, for capital funding in such Fiscal Year.

As a member of the Interstate Compact, the District contributes, as do other Contributing Jurisdictions, a proportionate share of WMATA's operating and certain debt service costs because WMATA's operating revenues are insufficient to cover such costs. The District's share of WMATA's operating budget for Fiscal Years 2011 through 2015 is shown in Table 21 below. This budget includes the District's payments used by WMATA for debt service on the WMATA Transit Bonds described below. The District's share of both the debt service and the operating loss is reported by the District as a current expenditure for transportation services in the General Fund.

**Table 21. District's Share of WMATA'S Operating Budget**
(Fiscal Years 2011-2015)

| Fiscal Year | District's Share of WMATA's Operating Budget |
|---|---|
| 2011 | $ 257,703,034 |
| 2012 | $ 278,545,119 |
| 2013 | $ 284,851,200 |
| 2014 | $ 310,411,666 |
| 2015 | $ 340,932,578 |

In order to provide a more predictable source of funding for long-term capital improvement projects, in addition to the debt service contributions described above, WMATA and the Contributing Jurisdictions have entered into the Capital Funding Agreement (effective July 1, 2010, and which expires June 30, 2016), pursuant to which the Contributing Jurisdictions committed to approximately $5.0 billion of funding (subject to appropriation) (the "Funding Commitment") for WMATA to finance capital improvement projects for the Metro System in Fiscal Years 2011-2016. The District's budgeted contributions for capital outlays for Fiscal Years 2011-2016 are $397,314,000. This amount does not include the District's contribution of not more than $50 million annually in support of the Passenger Rail Investment and Improvement Act. See "FISCAL YEAR 2015 APPROVED BUDGET AND FINANCIAL PLAN – Capital Budgeting and Financing."

The District's share of WMATA's capital budget for Fiscal Years 2011 through 2015 is shown in Table 22 below.

**Table 22. District's Share of WMATA's Capital Budget**
(Fiscal Years 2011-2015)

| Fiscal Year | District's Share of WMATA's Capital Budget |
|---|---|
| 2011 | $ 95,628,632 |
| 2012 | $ 110,378,918 |
| 2013 | $ 122,239,314 |
| 2014 | $ 132,832,439 |
| 2015 | $ 143,270,668 |

In addition to capital and operating funding from the Contributing Jurisdictions, in 2008, Congress appropriated $1.5 billion for the federal Secretary of Transportation to provide grants to WMATA for the financing in part of capital and preventative maintenance of the Metro System over ten years, beginning with Fiscal Year 2009. The grants authorized are for 50% of the cost of the Metro System's projects, conditioned on the Contributing Jurisdictions agreeing to and funding the remaining 50%, in cash, from sources other than federal funds or revenues from the operation of the Metro System. From Fiscal Year 2009 to date, the federal government has provided an annual $150 million grant to WMATA, and the local jurisdictions have made their matching funds contributions. In the transportation spending plan released on May 13, 2015, the House Appropriations Committee reduced the annual funding to WMATA from $150 million to $100 million. The Congressional budget process for Fiscal Year 2016 is underway, and it is not clear at this time how much federal funds will actually be appropriated for WMATA for Fiscal Year 2016 and thereafter. Because the Contributing Jurisdictions match this federal funding, a reduction in the amount would reduce the amount the Contributing Jurisdictions are required to fund, although it is not clear at this time how or whether any of the Contributing Jurisdictions would continue funding at the same level as before or at a reduced level.

In June 2009, WMATA issued the Washington Metropolitan Area Transit Authority Gross Revenue Transit Bonds, Series A and Series B, in the aggregate principal amount of $297,675,000 ("WMATA Transit Bonds"). This debt is not a general obligation of the District and does not involve a pledge of the full faith and credit of the District. In addition, WMATA cannot pledge the credit of the District or any other Contributing Jurisdictions for the payment of the WMATA Transit Bonds. However, to the extent there is an executed Capital Funding Agreement between the District or another Contributing Jurisdiction and WMATA, WMATA may pledge the receipts received (but only after they are received) under such agreement to the payment of the WMATA Transit Bonds.

In connection with the issuance of the WMATA Transit Bonds, as well as pursuant to lines of credit, tax leases, and private bond borrowings, WMATA is obligated to produce audited financial statements within four months after the June 30 end of its fiscal year, including submission to the nationally recognized municipal securities information repository, currently EMMA. The District has been advised by WMATA staff that the external auditors have been having difficulty establishing auditable records, and that it is uncertain at this time when the Fiscal Year 2014 audit will be complete. It is also uncertain at this time whether the Fiscal Year 2014 audit will be without qualification, and whether there may be a need to restate prior Fiscal Year statements. Deadlines under each of those financial agreements discussed above have been missed, and WMATA has informed the District that it is studying the implications of the missed deadlines. Accordingly, WMATA has not filed its Fiscal Year 2014 CAFR or any other Fiscal Year 2014 annual financial information on EMMA, and WMATA recently stated that it cannot file the information in the immediate future. A continuing disclosure notice pursuant to Rule 15c2-12 has been filed by WMATA with EMMA noting the failure to timely file the annual financial information. On March 27, 2015, Moody's Investors Service downgraded the WMATA Transit Bonds from Aa3 to A1, and revised the rating outlook from stable to negative.

WMATA has publicly reported that it has $227.5 million of short-term debt becoming due in June 2015 and that there is no assurance that all of the lenders will extend the debt. In addition, WMATA has reported that, as a result of a federal audit, it is currently receiving federal grant allocations reimbursing approximately $700 million of WMATA capital expenditures only after the provision of extensive paperwork and that there is no assurance that WMATA will be reimbursed for all of the $700 million of expenditures incurred. In addition, WMATA expects to apply for approximately $440 million in additional federal grant allocations in late May or early June of 2015.

WMATA, with respect to its bus, subway and paratransit transportation systems, is an integral part of the District's and the Washington, D.C. area's transportation network. It is unclear at this point whether and when the District, and the other Contributing Jurisdictions, may make additional contributions to WMATA's capital and operating costs, and it is unclear what impact any changes in services provided by WMATA would have on the District's financial condition.

*District of Columbia Housing Finance Agency*

The District of Columbia Housing Finance Agency ("DCHFA") is a corporate body and an instrumentality of the District created under the District of Columbia Housing Finance Agency Act, Chapter 27 of Title 42 of the District of Columbia Official Code, as amended, and has a legal existence separate from the government of the District. DCHFA has the power to issue revenue bonds, notes and other obligations to finance or assist in financing low and moderate income housing projects and homeownership programs. DCHFA has issued bonds and notes to provide financing for its housing programs/projects that are collateralized by (a) mortgage-backed securities and mortgage loans made on the related multifamily housing developments and single-family residences, (b) substantially all revenues, mortgage payments, and recovery payments received by DCHFA from mortgage-backed securities and mortgage loans, and (c) certain funds and accounts, including debt service reserve funds, established pursuant to indentures authorizing issuance of the bonds. DCHFA had approximately $813 million of bonds outstanding as of September 30, 2014.

*District of Columbia Tobacco Settlement Financing Corporation*

In November 1998, the District (along with a number of other States and various jurisdictions) signed a Master Settlement Agreement with certain tobacco manufacturers that ended litigation over health care treatment costs incurred for smoking-related illnesses. Under the settlement, the District was entitled to receive annual payments in perpetuity, with an estimated aggregate $1.2 billion to be received by 2025. The amount payable to the District in each year was to be determined by a complex formula based, among other things, on United States tobacco consumption, inflation rates and the market shares of the participating tobacco manufacturers. Although to date payments have been made by the participating manufacturers substantially as required by the Master Settlement Agreement, their ability to make such payments in the future is subject to the continued viability of the tobacco industry as a whole and of the participating manufacturers in particular, as well as various other uncertainties. Payment adjustments tied to, among other factors, settlement-related litigation, a decline in domestic tobacco shipments, and market share loss to manufacturers not participating in the Master Settlement Agreement, may have an adverse effect on the amount payable to the District in each year under the Master Settlement Agreement. In 2012, the District entered into a settlement agreement with the participating manufacturers that reduces the risk of substantial reductions to the District's payments due to market-share-loss adjustments. However, the District's prospective receipt of amounts payable to the District under the Master Settlement Agreement has been virtually eliminated for the foreseeable future as a result of the securitization transactions described below.

Pursuant to the Tobacco Settlement Trust Fund Emergency Establishment Act of 1999, as amended by the Tobacco Settlement Financing Act of 2000 (collectively, the "Tobacco Act"), the District created within the General Fund a separate trust fund designated the Tobacco Settlement Trust Fund (the "Tobacco Fund") and established the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") as a special purpose, independent instrumentality of the District government. Pursuant to the Tobacco Act, the Tobacco Corporation issued $521,105,000 aggregate principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2001 (the "2001 Tobacco Bonds") on March 13, 2001. On that date, the District sold to the Tobacco Corporation substantially all of its right, title and interest in certain amounts paid or payable to the District under the Master Settlement Agreement, including certain initial and annual payments that had already been received by the District, and the District's right to receive all future payments under the Master Settlement Agreement. In exchange, the Tobacco Corporation redeemed or defeased certain obligations of the District and transferred to the District the so-called residual interest, that is, the right to receive the portion of the payments received under the Master Settlement Agreement not required in each year to pay expenses, debt service, or reserves for the 2001 Tobacco Bonds, including any payments that may be received after the Tobacco Bonds (and any additional bonds or other obligations which may be issued in the future by the Tobacco Corporation) are retired. The residual interest is required to be deposited into the Tobacco Fund. Accordingly, since March 13, 2001, the District's share of payments under the Master Settlement Agreement has been paid to the Tobacco Corporation instead of the District. The Tobacco Corporation has made two transfers to the District in the amounts of $9.75 million and $5.1 million, representing the Fiscal Year 2002 and Fiscal Year 2003 residual interest, respectively. The indenture pursuant to which the 2001 Tobacco Bonds were issued provides that in the event one of the four original participating tobacco manufacturers that is a party to the Master Settlement Agreement is rated below investment grade (defined as a "Trapping Event"), the tobacco settlement payments shall be used to fund a special reserve account before any residual interest is paid to the District. As a result of ratings downgrades of R.J. Reynolds Tobacco Holdings, Inc.'s senior unsecured debt to below investment grade in June and July of 2003, the residual interest for Fiscal Year 2004 and subsequent Fiscal Years accordingly was retained by the Tobacco Corporation until one year after R.J. Reynolds Tobacco Holdings, Inc.'s ratings were restored to investment grade, which occurred in June 2008. As such, the Trapping Event ended in June 2009, allowing the transfer of $23.1 million of accumulated residual interest to the District at that time.

The Tobacco Corporation applied the net proceeds of the 2001 Tobacco Bonds to redeem or defease certain general obligation bonds of the District, thereby reducing the District's general obligation bond debt service by an average of approximately $50 million per year through 2014, and reducing outstanding principal by approximately $482 million. Pursuant to federal law, amounts equal to the annual debt service savings were required to be appropriated and deposited into the Emergency Reserve Fund until such fund was fully funded.

On August 30, 2006, the Tobacco Corporation issued $248,264,046 aggregate principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2006 (the "2006 Tobacco Bonds"). The 2006 Tobacco Bonds are subordinate to the 2001 Tobacco Bonds, and are payable from the residual interest referred to above. Rights to such residual interest to be received after April 1, 2015, were sold by the District to the Tobacco Corporation, in exchange for the proceeds of the 2006 Tobacco Bonds. The District retains the rights to the residual interest in excess of the amounts needed to retire, and upon retirement of, the 2006 Tobacco Bonds. A portion of the proceeds of the 2006 Tobacco Bonds was initially slated to be used to fund a portion of the District's contribution to the Southeast Hospital. However, it was ultimately decided that the District would use funds previously allocated for pay-as-you-go capital expenditures for the entire District contribution to the Southeast Hospital, and use a portion of the proceeds of the 2006 Tobacco Bonds to fund capital expenditures associated with the District's schools modernization initiative. The balance of the proceeds of the 2006 Tobacco Bonds was allocated to fund various health-care-related needs and other capital projects of the District.

The 2001 Tobacco Bonds and the 2006 Tobacco Bonds are secured by and payable solely from the Tobacco Corporation's interest in certain amounts paid or payable under the Master Settlement Agreement.

## OTHER INFORMATION

### The District Government – Employment

***Labor Relations***. The authority to conduct labor negotiations is contained in the Comprehensive Merit Personnel Act ("CMPA") and in Mayor's Order 2001-168 (November 14, 2001). The Office of Labor Relations and Collective Bargaining ("OLRCB"), a component of the Executive Office of the Mayor – Office of the City Administrator, represents the District as the principal management advocate in negotiations with labor organizations representing employees under the Mayor's personnel authority and in administering the District's labor relations program.

Forty-six local unions represent employees in agencies under the Mayor's personnel authority, which include agencies with delegated personnel authority. A total of 46 local unions from 14 different national labor organizations represent the District's total employee complement of approximately 33,000 employees, of which approximately 75% are represented by labor organizations. The employees under the Mayor's personnel authority are organized in 96 bargaining units and 20 compensation units.

In addition to agencies under the Mayor's personnel authority, independent entities including the University, DCHFA, WCSA, D.C. Water, the Public Service Commission, and the D.C. Armory have separate personnel authorities. The CFO has personnel authority over almost all District accounting, budget and financial management positions, and over all personnel of the Office of Finance and Treasury, the Office of Financial Operations and Systems, the Office of Budget and Planning and the Office of Tax and Revenue. The Attorney General has personnel authority over all District legal service positions with the exception of attorneys assigned to the agencies that are subordinate to the Mayor, including the Mayor's Office of Legal Counsel and Office of the General Counsel.

The District is currently engaged in collective bargaining negotiations for renewal of several compensation and working conditions agreements. Many of these contracts remain in effect until agreement is reached on successor agreements and such agreements are approved by the Mayor and the

Council, as required by law. One of the District's goals for negotiation of working conditions is to establish work rules that allow agencies to improve services, cut operating costs and make District agencies more efficient. By law, employees of the District are not permitted to strike.

During Fiscal Year 2014, the parties reached agreement on several compensation agreements including those covering employees in Compensation Units 19 and 33. Interest arbitration awards were issued for employees in Compensation Units 3 (police officers) and 4 (firefighters).

The most recent agreement between the District and the labor organizations representing employees covered by Compensation Units 1 and 2 is effective from Fiscal Year 2013 through Fiscal Year 2017. Compensation Units 1 and 2 cover the majority of District schedule and wage grade employees under the Mayor's personnel authority, an estimated 9,500 total employees. In September 2013, the parties reached an agreement which is effective retroactively, to October 1, 2012, and will continue in effect through September 30, 2017. The agreement was approved by the Council, as required by law, and provides for adjustments to wages and benefits from April 1, 2013, through Fiscal Year 2017. The increases in wages for each period covered by the current Compensation Units 1 and 2 Agreement are as follows:

- Fiscal Year 2013 (April 1, 2013) – 3%

- Fiscal Year 2014 – The District is required to set aside an amount equivalent to 1.5% of total salaries for Compensation Units 1 and 2, as of November 19, 2012, to be used to implement any compensation adjustment required by the Classification & Compensation Reform Project.

- Fiscal Year 2015 – 3%

- Fiscal Year 2016 – 3%

- Fiscal Year 2017 – 3%

The agreement also provides for $500,000 over the duration of the agreement to be used toward affordable housing incentives to eligible employees. The agreement further provides for a monthly contribution of $10 for each bargaining unit member toward a pre-paid legal services plan. Finally, the agreement continues to provide a $25 monthly incentive to employees who use public transportation to travel to and from work.

The most recently negotiated agreement between the District and Compensation Unit 13, which covers approximately 55 registered nurses, was effective during Fiscal Years 2005 through 2009. Subsequently, the parties went to interest arbitration to determine compensation for a successor agreement and the arbitrator awarded no increases in Fiscal Years 2010, 2011 and 2012, a 2% increase in Fiscal Year 2013 and a 3% increase in Fiscal Year 2014. For nurses at the Department of Behavioral Health the parties also went to interest arbitration and the Arbitrator awarded no increases in Fiscal Years 2011 and 2012, a 2% increase in Fiscal Year 2013 and a 3% increase in Fiscal Year 2014. For both of these contracts, there is a tentative agreement on 3% base wage increases in Fiscal Years 2015-2017.

The most recently negotiated agreement between the District and Compensation Unit 19 and the Department of Behavioral Health, which covers dentists, physicians, and podiatrists, provides for no increases in Fiscal Year 2010, 2011 and 2012, a 3% increase effective April 1, 2013, a 1.5% increase in Fiscal Year 2014, a 3% increase in Fiscal Year 2015 and a 3% in Fiscal Year 2016. The District and Compensation Unit 3, which covers approximately 4,000 uniformed police officers at the Metropolitan

Police Department, went to interest arbitration to determine compensation for a successor agreement. The Arbitrator awarded no increases for Fiscal Years 2009, 2010, 2011 and 2012, a 4% increase in April 2013, no increase for Fiscal Year 2014, a 3% increase in Fiscal Year 2015, a 3% increase in Fiscal Year 2016 and a 3% increase in Fiscal Year 2017.

The successor collective bargaining agreement between the District and Compensation Unit 4, covering approximately 1,600 uniformed officers at the Fire and Emergency Services Department, provides for no increase in Fiscal Year 2011, a 3% increase on April 1, 2012, a 3.5% increase on April 1, 2013, and a 3.5% increase on April 1, 2014. The Union demanded bargaining for a successor agreement to cover Fiscal Years 2015-2017. OLRCB challenged the timeliness of the demand for Fiscal Year 2015. The Public Employee Relations Board agreed with OLRCB that the union was late in attempting to negotiate for Fiscal Year 2015 and the union has appealed to Superior Court. The most recent agreement between the District and Compensation Unit 33, which covers attorneys employed by the Office of the Attorney General, provides for a 1.5% increase in Fiscal Year 2014, a 3% increase in Fiscal Year 2015, a 3% increase in Fiscal Year 2016 and a 3% increase in Fiscal Year 2017.

In Fiscal Year 2006, OLRCB assumed new authority for compensation negotiations for certain subordinate agencies that have independent personnel authority, most significantly the Department of Mental Health (reorganized and renamed the Department of Behavioral Health, "DBH"), which has approximately 1,200 full time equivalent employees of which approximately 70% are unionized. The unionized employees are represented by seven different national unions, with seven compensation units. Agreements were reached with each of the Committee of Interns and Residents, Service Employees International Union, District 1199E, the Psychologists' Union, the Laborers International Union, and American Federation of State, County and Municipal Employees, Local 2095 and American Federation of Government Employees, Local 383, all at DBH. Those agreements provide for wage and benefits increases through Fiscal Year 2016 in some cases and Fiscal Year 2017 in others. While there were no negotiated wage increases in Fiscal Year 2014 for several contracts, the District has reached an agreement on wage increases on the following contracts:

- The American Federation of State, County and Municipal Employees, Local 2921, representing approximately 1,333 employees at DCPS; 3% wage increases in Fiscal Years 2014-2017.

- The American Federation of State, County and Municipal Employees, Local 1959, representing approximately 861 employees at OSSE; 2.5% wage increases in Fiscal Years 2013 and 2015-2017.

- The International Brotherhood of Teamsters, Local 639 representing approximately 95 employees at OSSE; 3% wage increases in Fiscal Years 2013 and 2015-2016.

- The International Brotherhood of Teamsters, Local 639 representing approximately 578 employees at DCPS; 3% increases in Fiscal Years 2014-2017 and DCPS agreed to provide $50,000 each year of the contract for employees to participate in the negotiated Affordable Housing Program.

- The International Brotherhood of Teamsters, Local 639 and 730 representing approximately 183 employees at the Department of General Services; 3% wage increases in Fiscal Years 2013 and 2015-2017.

- The Council of School Officers (representing approximately 663 principals, assistant principals and related service providers, among others) at DCPS; 2% wage increases for principals, assistant principals and master educators and 3% wage increases for the rest of the unit for Fiscal Year 2014; 3% wage increases for the entire unit in Fiscal Years 2015-2017.

The current collective bargaining agreement with the Washington Teachers' Union ("WTU") and DCPS, was effective through Fiscal Year 2012. It provided retroactive wage and benefits adjustments and required the implementation of a pay for performance system beginning in Fiscal Year 2010. Bargaining for a successor agreement had begun with the prior WTU President and his team. However, while this process was delayed due to a turnover in the leadership of the WTU, bargaining is back on track.

**Table 23. District Government - Number of Authorized Full-Time Equivalent (FTE) Positions[(1), (2)]**

| FUNCTION | FY 2015 Approved FTEs | FY 2016 Proposed FTEs |
|---|---|---|
| Governmental direction and support | 3,659 | 3,594 |
| Economic development and regulation | 1,685 | 1,755 |
| Public safety and justice | 8,495 | 8,517 |
| Public education system | 10,660 | 10,526 |
| Human support services | 5,705 | 5,885 |
| Public works | 2,672 | 2,676 |
| **TOTAL FTEs** | **32,876** | **32,953** |

(1) Details may not sum to total due to rounding.
(2) Number of FTEs includes those paid from all funds, including intra-District funds within the General Operating Fund, but does not include FTEs in Non-Departmental (40 FTEs).

Source: Fiscal Year 2016 Proposed Budget.

## RETIREMENT PROGRAMS

The District provides full-time employees certain pension benefits through the CSRS, Social Security, or the District's retirement programs. The District also has established a post-retirement health and life insurance plan for eligible employees.

Brief descriptions of these plans are set forth below. See also Notes 9 and 10 to the Fiscal Year 2014 Financial Statements and the Required Supplementary Information pertaining to the District's retirement programs and other post-employment benefit ("OPEB") programs set forth at pages 130-132 of the Fiscal Year 2014 Financial Statements.

***Overview***. As described in more detail below, the District makes contributions on behalf of its employees to (i) CSRS, (ii) Social Security, (iii) the District-sponsored defined benefit retirement programs, (iv) the District-sponsored defined contribution retirement programs, and (v) Medicare. As reflected in Table 30 below, the District has contributed to the District-sponsored defined benefit retirement programs, for each of the last ten fiscal years, 100% of the ARC (as defined below). A summary of the aggregate payments made by the District for the last five fiscal years is shown immediately below.

**Table 24. Summary of District's Aggregate Payments to Retirement Programs**
(Fiscal Years 2010-2014, as of September 30 in each Fiscal Year)
($ in millions)

| Program | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|---|---|---|---|---|---|
| CSRS | $15.1 | $14.6 | $12.3 | $11.5 | $11.0 |
| Social Security | 67.8 | 70.5 | 66.3 | 68.7 | 75.1 |
| District Defined Benefit Plans | 132.3 | 127.2 | 116.7 | 102.7 | 142.4 |
| District Defined Contribution Plans | 43.2 | 47.0 | 44.2 | 44.9 | 50.3 |
| Medicare | 27.3 | 29.0 | 27.1 | 27.7 | 30.0 |
| **Total Retirement Program Expenditures** | **$285.7** | **$288.3** | **$266.6** | **$255.5** | **$308.8** |
| **Total General Fund Expenditures** | **$5,803.9** | **$5,859.9** | **$6,153.5** | **$6,525.1** | **$6,948.8** |
| **% of General Fund Expenditures** | **4.92%** | **4.92%** | **4.33%** | **3.92%** | **4.44%** |

### Pension and Retirement Plans Not Sponsored by the District

***U.S. Civil Service Retirement & Social Security Systems***. Permanent full-time employees hired before October 1, 1987, except those covered by the District's retirement program, are covered by the CSRS. As of September 30, 2014, approximately 2,252 active District employees were covered by the CSRS. Permanent full-time employees, except those covered by the District's retirement program, hired after September 30, 1987, are covered by Social Security. As of September 30, 2014, approximately 20,334 active employees were making contributions to Social Security. CSRS and Social Security are the responsibility of the federal government, and the District is only responsible for making regular payments at specified rates to those plans. Pub. L. No. 99-335, effective January 1, 1987, precludes the District's participation in the CSRS and the Federal Health and Life Insurance Program for employees hired after September 30, 1987. Employees hired after that date are covered under the District's health insurance, life insurance and defined contribution pension plans.

The District made contributions to the CSRS in the approximate amounts of $11.5 million in Fiscal Year 2013 and $11.0 million in Fiscal Year 2014 and expects to contribute $10.3 million in Fiscal Year 2015. The District contributed approximately $68.7 million in Fiscal Year 2013 and $75.1 million in Fiscal Year 2014 to Social Security and expects to contribute approximately $78.8 million in Fiscal Year 2015. The District also paid Medicare taxes for those employees in the approximate amounts of $27.7 million in Fiscal Year 2013 and $30.0 million in Fiscal Year 2014 and expects to contribute approximately $30.9 million in Fiscal Year 2015.

***College Teachers' Retirement System***. The College Teachers' Retirement System, which covers University employees, is a multi-employer plan administered by the nationwide Teachers' Insurance and Annuity Association/College Retirement Equities Fund.

**Pension and Retirement Plans Sponsored by the District**

***Defined Benefit Pension Plans***. The District of Columbia Retirement Board ("DCRB"), pursuant to the authority set forth in §§ 191 and 121(e) of the District of Columbia Retirement Reform Act (the "Reform Act"), Pub. L. No. 96-122, 93 Stat. 866, November 17, 1979 (codified at D.C. Official Code §§ 1-751 and 1-711(e) (2001)) is responsible for managing and controlling the Police Officers and Fire Fighters' Retirement Fund and the Teachers' Retirement Fund (collectively, the "Fund"), as well as implementing and administering the Police Officers and Firefighters' Retirement Plan (codified in D.C. Official Code Title 5, ch. 7) and the Teachers' Retirement Plan (codified in D.C. Official Code Title 38, subtitle V, ch. 20, subch. II) (collectively, the "Plans") for members of the Plans, their survivors and beneficiaries. The District is responsible for funding and administering these plans. These employees are not covered by Social Security.

The Fund was split in 1997 pursuant to Title XI of the Balanced Budget Act of 1997, Pub. L. No. 105-33, 111 Stat. 715, as amended (the National Capital Revitalization and Self-Government Improvement Act of 1997, or "Revitalization Act"). Under the Revitalization Act, the U.S. Department of the Treasury ("Treasury") is responsible for funding benefits based upon service as of June 30, 1997, in accordance with the Plans in effect on June 29, 1997 ("Federal Benefit Payments") (D.C. Official Code § 1-809.02 (2001)). Treasury maintains a separate fund to pay Federal Benefit Payments. The District is responsible for funding benefits based on service after June 30, 1997, in accordance with a "Replacement Plan" the District was required to adopt ("District Benefits Payments"). These payments are made from the Fund.

The Replacement Plan, enacted by the District in 1998 (the Police Officers, Firefighters, and Teachers Retirement Benefit Replacement Act of 1998, D.C. Law 12-152), continued the terms of the Plans as those plans existed on June 30, 1997 (D.C. Official Code § 1-905.01 (2001)). Amendments to the Replacement Plan by the District government only apply to District Benefit Payments.

Although most benefit payments are only Federal Benefit Payments, an increasing number of payments are either a combination of Federal Benefit Payments and District Benefits Payments (referred to as "Split Benefit Payments") or District Benefit Payments only. Generally, if a member's service began and ended on or before June 30, 1997, the member receives Federal Benefit Payments. If a member's service began on or before June 30, 1997, and ended after June 30, 1997, the member receives Split Benefit Payments (federal benefit payment regulations apply in determining the split financial obligations between Treasury and the District for Split Benefit Payments; see 31 CFR part 29). If a member's service began and ended after June 30, 1997, the member receives District Benefit Payments.

***Overview***. The DCRB administers the District's Retirement Programs (D.C. Official Code Title 5, ch. 7 and D.C. Official Code Title 38, subtitle V, ch. 20, subch. II) which consist of two single-employer defined benefit pension plans, one established for police officers and firefighters, and the other for teachers.

Membership in the Retirement Programs as of October 1, 2014, the date of the most recent valuation, is as follows:

**Table 25. Retirement Programs Membership**
(as of October 1, 2014)

| | Police and Firefighters | Teachers |
|---|---|---|
| Active | 5,551 | 4,499 |
| Inactive* | 117 | 1,634 |
| Terminated, vested* | 257 | 969 |
| Retired Members and Survivors* | 2,365 | 3,601 |
| **Total*** | **8,290** | **10,703** |

* District only, does not include federal members.

Each Plan provides retirement, death and disability benefits, and annual cost of living adjustments to Plan members and beneficiaries. Retirement and disability benefit provisions for police and firefighters are established by the Policemen and Firemen's Retirement and Disability Act (D.C. Code §5-701 et seq. (2001 ed.)). For the Teachers Plan, Title 38, Chapter 20 of the D.C. Code (D.C. Code § 38-2001, et seq. (2001 ed.)) assigns the authority to establish and amend benefit provisions to the Council. The DCRB issues a publicly available financial report, which includes financial statements and required supplementary information for the plans. The most recent report for the Fiscal Years ended September 30, 2014 and 2013 (the "2014 DCRB CAFR") can be obtained from the Executive Director, District of Columbia Retirement Board, 900 7th Street, N.W., 2nd Floor, Washington, D.C. 20001 or on the DCRB's website.

The twelve-member DCRB administers the assets of the District's Defined Benefit Replacement Plans, and the District accounts for them as Pension Trust Funds. The District's Defined Benefit Replacement Plans have defined retirement benefits, which increase after retirement in proportion to changes in the Consumer Price Index or, in some cases, current salary levels. Benefits are payable upon retirement, disability, death, or other termination. Required employee contributions are 7% for police officers, firefighters, and teachers hired before the first pay period beginning after November 1, 1996, and 8% for those employees hired after the first pay period beginning after November 1, 1996.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Plan. The Replacement Plan defines the eligibility and the calculation of the amount of the benefit payment for covered District employees for service accrued after June 30, 1997. The District's contributions for Fiscal Years 2010-2014 were equal to the plans' independent actuary's recommendation.

Since 2013, the DCRB has been working with the federal government on a reconciliation of historic retirement payments for the period covering October 1, 1997 to December 31, 2007. As part of this reconciliation project, it was determined that the District owed the federal government $30,893,814. On June 20, 2013, the U.S. Treasury invoiced the District for this amount and the District made such payment on March 31, 2014.

Tables 26-28 set forth the total market value of net assets, amount of employee and employer contributions, net investment income, and disbursements including benefit payments, refunds on death and refunds plus interest on withdrawals, for the Retirement Programs for the Police Officers and Firefighters and Teachers for Fiscal Year 2005 through Fiscal Year 2014, inclusive.

## Table 26. Police Officers and Firefighters' Retirement Plan[1]

| Year Ended September 30 | Market Value of Net Assets | Employee Contributions | Employer Contributions | Net Investment Income/(Loss) | Disbursements |
|---|---|---|---|---|---|
| 2005 | $1,973,092,000 | $23,804,000 | $112,100,000 | $235,515,000 | $17,353,000 |
| 2006 | 2,310,211,000 | 25,142,000 | 117,500,000 | 212,089,000 | 17,612,000 |
| 2007 | 2,853,608,000 | 27,489,000 | 140,100,000 | 400,433,000 | 26,008,000 |
| 2008 | 2,476,726,000 | 31,718,000 | 137,000,000 | (516,438,000) | 31,114,000 |
| 2009 | 2,524,994,000 | 29,900,000 | 106,000,000 | (58,228,000) | 31,084,000 |
| 2010 | 2,925,742,000 | 31,607,000 | 132,300,000 | 270,277,000 | 34,991,000 |
| 2011 | 3,127,467,000 | 30,474,000 | 127,200,000 | 81,973,000 | 39,357,000 |
| 2012 | 3,681,854,000 | 30,398,000 | 116,700,000 | 452,881,000 | 47,176,000 |
| 2013 | 4,168,457,000 | 30,581,000 | 96,314,000 | 423,581,000 | 65,920,000 |
| 2014 | 4,588,319,000 | 32,821,000 | 110,766,000 | 339,839,080 | 63,564,000 |

(1) Source: Annual Actuarial Valuation Reports and Comprehensive Annual Financial Reports.

## Table 27. Teachers' Retirement Plan[1]

| Year Ended September 30 | Market Value of Net Assets | Employee Contributions | Employer Contributions | Net Investment Income/(Loss) | Disbursements |
|---|---|---|---|---|---|
| 2005 | $1,142,521,000 | $24,778,000 | $ 9,200,000 | $137,333,000 | $23,079,000 |
| 2006 | 1,279,139,000 | 25,807,000 | 15,500,000 | 120,114,000 | 24,803,000 |
| 2007 | 1,517,765,000 | 26,793,000 | 14,600,000 | 217,731,000 | 28,702,000 |
| 2008 | 1,257,754,000 | 25,919,000 | 6,000,000 | (259,309,000) | 33,611,000 |
| 2009 | 1,204,391,000 | 24,907,000 | - | (37,875,000) | 41,188,000 |
| 2010 | 1,317,470,000 | 29,940,000 | - | 125,756,000 | 43,312,000 |
| 2011 | 1,340,712,000 | 27,739,000 | - | 44,364,000 | 49,477,000 |
| 2012 | 1,503,486,000 | 28,639,000 | - | 190,002,000 | 56,539,000 |
| 2013 | 1,622,375,000 | 28,129,000 | 6,407,000 | 168,117,000 | 84,560,000 |
| 2014 | 1,746,030,000 | 28,751,000 | 31,636,000 | 132,447,383 | 69,180,000 |

(1) Source: Annual Actuarial Valuation Reports and Comprehensive Annual Financial Reports.

***Actuarial Valuation***. The most recent actuarial valuation of the Retirement Programs was prepared by the DCRB's actuary, Cavanaugh Macdonald Consulting, LLC, as of October 1, 2014. This valuation (the "2014 Valuation") is available on the DCRB's website, along with prior valuations for comparison purposes.

The purpose of the actuarial valuations prepared for the DCRB is to provide a summary of the funded status of each plan as of the valuation date, to recommend rates of contribution to be paid by the District in the following Fiscal Year (i.e., the 2014 Valuation recommends contribution rates for Fiscal Year 2016) and to provide accounting information under GASB Statements No. 25 and 27.

An actuarial valuation calculates the actuarial accrued liability in each of the plans, which represents the present value of benefits the plan will pay to its retired members and active members upon retirement based on certain demographic and economic assumptions. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms the unfunded actuarial accrued liability ("UAAL"), if any, of the plans. The actuarial valuation will express the percentage that a system is funded through a "funded ratio," which represents the actuarial value of assets of the plan divided by the actuarial accrued liability of such plan. The actuarial valuation will also state an annual required contribution ("ARC"), which is a recommended amount that the District contribute annually to the applicable plan. The ARC consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL, if any.

***Description of Certain Actuarial Assumptions***. To calculate the actuarial value of assets and actuarial accrued liability of each plan, the actuarial valuations use several actuarial assumptions. Some examples of these assumptions include an expected rate of return on assets, age of retirement of active members, future salary increases for current employees and assumed mortality rates for retirees and beneficiaries. If the actual experience of a plan differs from these assumptions, the UAAL of such plan may increase or decrease to the extent of any such variance. With respect to expected rate of return of assets, for example, the actual rate of return for each plan depends on the performance of its investment portfolio. The value of the securities in the investment portfolio changes from one Fiscal Year to the next, which, in turn, causes increases or decreases in the plan's UAAL. This could have a resulting impact on the ARC, which may increase the amount of the District's contribution to the plans.

Prior to the actuarial valuation of the Retirement Programs prepared as of October 1, 2012 (the "2012 Valuation"), the expected rate of return was 7.00%. However, beginning with the 2012 Valuation, the expected rate of return was lowered to 6.50%. Other changes in assumptions used in the 2012 Valuation and continued in the 2014 Valuation included changing the actuarial cost method from the "Aggregate" method to the more commonly used "Entry Age Normal" method, changing the price inflation assumption from 4.25% to 3.50% and lowering the payroll growth assumption from 4.75% to 4.25%. Unlike the Aggregate method, the Entry Age Normal method identifies a normal cost and an unfunded accrued liability, thus allowing gains and losses to be amortized over a period of time (20 years in DCRB's case). Most public pension plans use the Entry Age Normal method.

An additional actuarial method used in arriving at the actuarial valuation is so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over a number of years (in the case of the District, the previous seven years) to offset the effects of volatility of market values in any single year. In addition, the DCRB uses a 20% "corridor" in order to prevent the smoothed values from differing too much from market. The use of the 20% corridor means that very large gains and losses (i.e., ones that would produce a smoothed value that is more than 20% higher or lower than the actual market value) will be reflected immediately in funding.

Finally, as noted in the 2014 Valuation, the DCRB adopted a new funding policy as of November 15, 2012. The two main goals of the changed policy are as follows:

- to maintain an increasing or stable ratio of plan assets to accrued liabilities and reach a 100% minimum funded ratio; and

- to develop stable or declining contribution rates as a percentage of member payroll, with a minimum employer (District) contribution equal to the lesser of the normal cost determined under the Entry Age Normal funding method and the current active member contribution rate.

The new policy also sets the amortization period for any unfunded liability at 20 years in 2012 and will decline one year each year until a funded ratio of 100% is reached. In addition, the amortization of the unfunded accrued liability will be developed using the "level dollar" approach. Level dollar means the UAAL will be paid in the same dollar amount for the entire period, similar to a fixed-rate home mortgage.

Table 28 presents, for each plan, the actuarial value of assets, the market value of net assets, the actuarial value of assets as a percent of market value of assets, the investment rate of return based on the actuarial value of assets, and the investment rate of return based on market value assets over the past ten years.

**Table 28. Actuarial Value, Market Value and Investment Rates of Return**
(Fiscal Years 2005-2014)
($ in thousands)

| | Fiscal Year | Actuarial Value (AV) of Assets | Market Value (MV) of Net Assets | AV as % of MV | Investment Rate of Return (AV) | Investment Rate of Return (MV)(1), (2) |
|---|---|---|---|---|---|---|
| **Police Officers and Firefighters** | | | | | | |
| | 2005 | $1,933,600 | $1,978,500 | 98% | 9.1% | 13.9% |
| | 2006 | 2,252,600 | 2,308,200 | 98 | 9.2 | 10.4 |
| | 2007 | 2,672,900 | 2,861,000 | 93 | 11.5 | 16.8 |
| | 2008 | 2,932,100 | 2,481,200 | 118 | 4.6 | (16.9) |
| | 2009 | 3,048,400 | 2,524,995 | 120 | 0.4 | (2.2) |
| | 2010 | 3,418,796 | 2,920,790 | 117 | 1.27 | 10.3 |
| | 2011 | 3,593,716 | 3,127,496 | 115 | 1.43 | 2.9 |
| | 2012 | 3,804,853 | 3,681,526 | 103 | 2.87 | 14.5 |
| | 2013 | 4,013,534 | 4,168,457 | 96 | 3.9 | 11.5 |
| | 2014 | 4,288,727 | 4,588,319 | 93 | 4.81 | 8.1 |
| **Teachers** | | | | | | |
| | 2005 | $1,104,600 | $1,145,600 | 96% | 9.3% | 13.9% |
| | 2006 | 1,230,000 | 1,284,400 | 96 | 9.6 | 10.4 |
| | 2007 | 1,396,000 | 1,517,200 | 92 | 12.2 | 16.8 |
| | 2008 | 1,447,600 | 1,253,500 | 115 | 4.6 | (16.9) |
| | 2009 | 1,445,000 | 1,204,393 | 120 | 0.4 | (2.2) |
| | 2010 | 1,570,968 | 1,314,357 | 120 | 1.32 | 10.3 |
| | 2011 | 1,573,654 | 1,340,725 | 117 | 1.38 | 2.9 |
| | 2012 | 1,585,626 | 1,503,346 | 105 | 2.37 | 14.5 |
| | 2013 | 1,585,775 | 1,622,376 | 98 | 3.9 | 11.5 |
| | 2014 | 1,638,583 | 1,746,030 | 94 | 3.9 | 8.2 |

(1) Investment returns based on market value of net assets are gross of fees.
(2) Market rates of return for each plan not separately stated.

## Funded Status and Funding Progress

Table 29 provides an analysis of funding progress for each of the District's defined benefit pension plans from 2005 through 2014, based on the annual actuarial valuation report for each respective year.

**Table 29. Schedule of Funding Progress**
($ in thousands)

| | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percent of Covered Payroll |
|---|---|---|---|---|---|---|---|
| **Teachers' Retirement Plan** | | | | | | | |
| | 10/1/2005[1] | $1,104,600 | - | - | - | - | - |
| | 10/1/2006 | 1,230,000 | $1,106,000 | ($124,000) | 111.2% | $322,300 | (38.5)% |
| | 10/1/2007 | 1,396,000 | 1,251,300 | (144,700) | 111.6 | 349,900 | (41.4) |
| | 10/1/2008 | 1,447,600 | 1,338,000 | (109,600) | 108.2 | 359,100 | (30.5) |
| | 10/1/2009 | 1,445,000 | 1,304,500 | (140,500) | 110.8 | 336,600 | (41.7) |
| | 10/1/2010 | 1,570,968 | 1,328,299 | (242,669) | 118.3 | 337,516 | (71.9) |
| | 10/1/2011 | 1,573,654 | 1,544,864 | (28,790) | 101.9 | 384,455 | (7.5) |
| | 10/1/2012 | 1,585,626 | 1,680,548 | 94,922 | 94.4 | 381,235 | 24.9 |
| | 10/1/2013 | 1,585,775 | 1,759,043 | 173,268 | 90.1 | 369,071 | 46.9 |
| | 10/1/2014 | 1,638,583 | 1,849,230 | 210,647 | 88.6 | 378,926 | 55.6 |
| **Police Officers and Firefighters' Retirement Plan** | | | | | | | |
| | 10/1/2005[1] | $1,933,600 | - | - | - | - | - |
| | 10/1/2006 | 2,252,600 | $2,459,000 | $206,400 | 91.6% | $351,000 | 58.8% |
| | 10/1/2007 | 2,672,900 | 2,647,300 | (25,600) | 101.0 | 371,300 | (6.9) |
| | 10/1/2008 | 2,932,100 | 2,938,800 | 6,700 | 99.8 | 421,800 | 1.6 |
| | 10/1/2009 | 3,048,400 | 3,027,900 | (20,500) | 100.7 | 436,100 | (4.7) |
| | 10/1/2010 | 3,418,796 | 3,166,830 | (251,966) | 108.0 | 423,854 | (59.4) |
| | 10/1/2011 | 3,593,716 | 3,309,825 | (283,891) | 108.6 | 421,221 | (67.4) |
| | 10/1/2012 | 3,804,853 | 3,456,976 | (347,877) | 110.1 | 414,877 | (83.9) |
| | 10/1/2013 | 4,013,534 | 3,644,085 | (369,449) | 110.1 | 413,380 | (89.4) |
| | 10/1/2014 | 4,288,727 | 3,998,537 | (290,190) | 107.3 | 438,415 | (66.2) |

Source: DCRB's Annual Actuarial Valuation Reports.
[1] For 2005, the DCRB used the aggregate actuarial cost method and was therefore not required to disclose a schedule of funding progress.

### Annual Required Contributions

Table 30 sets forth the ARC by the District for each of the Fiscal Years indicated. The ARC is determined annually based on the most recent actuarial valuation, although due to the timing of receipt of each valuation, there is a lag between the Fiscal Year results used to determine the ARC for any particular future Fiscal Year. As noted above, the 2014 Valuation was used to determine the ARC for Fiscal Year 2016.

**Table 30. Schedule of Employer Contributions**
($ in millions)

| | Teachers' Retirement Fund | | Police Officers and Firefighters' Retirement Fund | | Total Fund | |
|---|---|---|---|---|---|---|
| Year Ending | Annual Required Contribution | Percentage Contributed | Annual Required Contribution | Percentage Contributed | Annual Required Contribution | Percentage Contributed |
| September 30, 2005 | $9.2 | 100% | $112.1 | 100% | $121.3 | 100% |
| September 30, 2006 | 15.5 | 100 | 117.5 | 100 | 133.0 | 100 |
| September 30, 2007 | 14.6 | 100 | 140.1 | 100 | 154.7 | 100 |
| September 30, 2008 | 6.0 | 100 | 137.0 | 100 | 143.0 | 100 |
| September 30, 2009 | - | 100 | 106.0 | 100 | 106.0 | 100 |
| September 30, 2010 | - | 100 | 132.3 | 100 | 132.3 | 100 |
| September 30, 2011 | - | 100 | 127.0 | 100 | 127.0 | 100 |
| September 30, 2012 | - | 100 | 116.7 | 100 | 116.7 | 100 |
| September 30, 2013 | 6.4 | 100 | 96.3 | 100 | 102.7 | 100 |
| September 30, 2014 | 31.6 | 100 | 110.8 | 100 | 142.4 | 100 |

Source: 2014 DCRB CAFR.

Future actuarial results and accordingly annual funding requirements may differ significantly from the results set forth herein and in the 2014 Valuation. These differences will be due to various factors, including, in part, as noted in the 2014 Valuation, plan experience may differ from that anticipated by the economic or demographic assumptions, changes in such assumptions and changes in plan provisions or applicable law. It is likely that actual future circumstances will vary from those assumed in the 2014 Valuation and such variances may be substantial.

### Investments

The 2014 DCRB CAFR includes a specific section labeled "Investment Section", which contains detailed information concerning the DCRB's investment objectives and policies, investment results, asset allocation, a report on investment activity, a list of the largest assets held, a schedule of fees and commissions and an investment summary. See pages 79-86 of the 2014 DCRB CAFR. Additional information regarding the DCRB's investment objectives and policies and investment reports is available at http://dcrb.dc.gov/service/investments.

## Recent Changes to Pension Obligation Reporting

In June 2012, the GASB issued GASB Statement No. 68, which set forth new standards that will modify the accounting and financial reporting of the District's pension obligations. The new standard for governments that provide employee pension benefits will require the District to report in its statement of net position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the asset (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The new standard will require immediate recognition of more pension expense than is currently required. The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The new standard became effective for the District's Fiscal Year 2015 financial statements.

***Defined Contribution Pension Plan***. Permanent full-time employees hired after September 30, 1987, are covered by the District's Defined Contribution Pension Plan. As of September 30, 2014, 15,717 active permanent and full-time general employees were beneficiaries of payments made by the District on their behalf to the Defined Contribution Pension Plan. These employees also make payments to Social Security and are the beneficiaries of payments made by the District to that system on their behalf.

The District-sponsored Defined Contribution Pension Plan is an Internal Revenue Code Section 401(a) plan for permanent full-time and part-time employees who otherwise would have been covered by the Civil Service Retirement System but who were employed after September 30, 1987. The District contributed approximately $44.2 million for Fiscal Year 2012, $44.9 million in Fiscal Year 2013, and $50.3 million in Fiscal Year 2014. The current level of the District's defined contribution payment is 5% of base salary, except for detention officers, who receive 5.5% of base salary. Employees do not contribute to the plan and are eligible to participate after one year of service. Contributions and earnings vest fully after five years of creditable service. Vested contributions are not assets of the District and the District has no additional liability to this plan.

***403(b) and 457(b) Plans***. The District also sponsors an annuity purchase plan under Internal Revenue Code Section 403(b) and a deferred compensation plan under Internal Revenue Code Section 457(b). Both plans are funded entirely from employee contributions. The assets of both plans are not assets of the District and the District has no financial liability to either plan.

## Other Post-Employment Benefits

Before 1987, all employees and retirees of the District government were eligible for coverage under federal health and insurance plans. In 1987, in response to a federal request, the Council enacted the District of Columbia Government Comprehensive Merit Personnel Act of 1978 Employee Benefits Amendment Act of 1987 (D.C. Law 7-27). This law requires the District government to provide health and life insurance benefits to retirees of the District first employed after September 30, 1987. Retirees of the District government first employed before October 1, 1987, remain eligible for federal health and life insurance benefits. A separate trust fund, the Annuitants' Health and Life Insurance Employer Contribution Trust Fund, was established to provide OPEB to retirees of the District first employed after September 30, 1987. Similar to most other jurisdictions, the District initially funded these programs on a pay-as-you-go basis, but began funding OPEB on an actuarial basis in Fiscal Year 2008. "Pay-as-you-go" is a method of financing a pension or other post-retirement benefit plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

The District provides post-employment benefits to retirees. Based on years of service, the District pays up to a maximum of 75% of the cost of retiree health insurance, 30% of the cost of retiree life insurance and 60% of the cost of retiree spouse and dependent health insurance. The District pays 75% of the cost of the selected health benefit plan for covered family members of police officers or firefighter annuitants who are injured or killed in the line of duty. These benefits are available to all employees with five years of continuous service prior to retirement.

As of September 30, 2013, the District's OPEB plan had an 85.7% funded ratio and an estimated actuarial accrued liability of $1,048.0 million, with an actuarial value of assets held in trust of $897.8 million. This results in an unfunded actuarial liability of $150.2 million as of September 30, 2013.

Since the District adopted GASB 45, which sets forth standards for the measurements, recognition and display of OPEB expenses/expenditures and related assets and liabilities and financial statement disclosures, the District established a restricted trust and began making annual payments to the trust. To date, the District has contributed 99% of the ARC for this purpose. The current investment return assumption is 7% and the unfunded liabilities are amortized over a closed, 30-year period. The ARC to the trust for Fiscal Years 2013 and 2014 were $85.2 million and $86.6 million, respectively. For Fiscal Year 2015, the District budgeted $91.4 million for deposit into the trust. Based on its most recent valuation, the District currently projects future ARC to range from $95.4 million in Fiscal Year 2016 to $112.9 million in Fiscal Year 2019.

Actual contributions will likely be different in the future as funding requirements will be based upon various matters, including actuarial assumptions, investment returns, plan benefits and participant demographics. In addition, the most recent valuation also notes the uncertainty posed by certain provisions of the Patient Protection and Affordable Care Act ("ACA"). One provision of the ACA imposes a 40% per year excise tax (the so-called "Cadillac tax") on health coverage providers beginning in 2018 to the extent the value of employer sponsored health coverage exceeds certain amounts. The District cannot now predict whether or to what extent the Cadillac tax provision may adversely affect the costs to the District and its employees of providing health care coverage.

Additional information regarding the District's OPEB plan and costs is set forth in Note 10 to the District's CAFR for Fiscal Year 2014 and in the Required Supplemental Information thereto at page 131.

## INDEBTEDNESS

### Summary of Statutory Debt Provisions

The Home Rule Act authorizes the issuance of short-term and long-term general obligation debt of the District. Short-term debt may be issued in the form of (i) revenue anticipation notes, in anticipation of the collection or receipt of revenues for a Fiscal Year or (ii) bond anticipation notes, in anticipation of the issuance of general obligation bonds.

The total amount of revenue anticipation notes outstanding at any time during a Fiscal Year may not exceed 20% of the total anticipated revenue of the District for such Fiscal Year and such notes must mature within the Fiscal Year in which they are issued. Not more than 15 days before the issuance of any revenue anticipation notes, the Mayor must certify the total anticipated revenue of the District for such Fiscal Year.

Bond anticipation notes must be paid no later than the last day of the third Fiscal Year following the Fiscal Year of issuance. The act of Council authorizing the notes must set forth an estimated maximum annual debt service amount for the general obligation bonds in anticipation of which the notes are issued, and such debt service must be included in the 17% maximum debt service calculation described below.

The District also may issue long-term debt in the form of general obligation bonds and income tax secured bonds to finance capital projects and to refund indebtedness of the District. Any general obligation bond and income tax secured revenue bond issuances are not permitted during any Fiscal Year if total debt service in any Fiscal Year will exceed 17% of District revenues (as described in section 603(b) of the Home Rule Act, D.C. Official Code §1-206.03(b)(1) to which income tax secured bonds have been applied by District statute) during the Fiscal Year in which such issuances are made. General obligation bonds are secured by the full faith and credit of the District and may be secured additionally by a security interest in specified District revenues, including a special real property tax.

In 2009, the District passed the Limitation on Borrowing and Establishment of the Operating Cash Reserve Act of 2008, effective March 25, 2009, as amended (D.C. Law 17-360; D.C. Official Code §47-334 et seq.) (the “Debt Ceiling Act”) imposing a further limit on the issuance of any District general obligation bonds, Treasury capital-project loans, tax-supported revenue bonds, notes or other debt instruments secured by revenues derived from taxes, fees, or other general revenues of the District, or its agencies and authorities, pursuant to the District’s power to tax and impose fees, including TIF Bonds and PILOT Notes (as hereinafter defined), certificates of participation and lease purchase financing obligations (collectively, with the exceptions noted in the Debt Ceiling Act, “Tax-Supported Debt”), but excluding revenue bonds, notes, or other debt instruments issued for the purpose of funding water and sewer facilities, as described in section 490(a) of the Home Rule Act, and bonds, notes, or other debt instruments paid or secured by revenues from the Master Settlement Agreement with tobacco companies, federal grants, or revenues from the operation of public enterprises, so long as those enterprises are fully self-supporting, if such issuance would result in total debt service in the Fiscal Year of issuance, or any of the five succeeding Fiscal Years, on all outstanding Tax-Supported Debt exceeding 12% of annual District General Fund expenditures and transfers in any applicable Fiscal Year, as contained in the most recently enacted District budget (the “Debt Ceiling”).

Following the issuance of the Bonds, the District will have approximately $9.5 billion of Tax-Supported Debt outstanding, the debt service on which will produce a Debt Ceiling percentage of approximately 9.93%, which will comply with the Debt Ceiling Act in Fiscal Year 2015.

The projected Debt Ceiling percentages for Fiscal Years 2015 through 2019, following the issuance of the Bonds, are set forth below. Such projections assume the issuance of the bonds, notes, or other obligations set forth in the District's capital improvements plan for such Fiscal Years with an assumed interest rate of 5.5%. See "FISCAL YEAR 2016 PROPOSED BUDGET AND FINANCIAL PLAN – Capital Budgeting and Financing."

**Table 31. Projected Annual Debt Ceiling Percentages***

| | |
|---|---|
| 2015 | 9.93% |
| 2016 | 9.85% |
| 2017 | 10.29% |
| 2018 | 11.21% |
| 2019 | 11.79% |

* Debt Ceiling assumptions are preliminary, subject to change.

The Council may authorize the issuance of revenue bonds, notes or other obligations (including refunding bonds, notes or other obligations) to borrow money to finance governmental purposes authorized for financing by general obligation bonds or notes by creating a security interest in any District revenues. Such bonds, notes or other obligations, if issued, are to be secured by a pledge of the revenues realized from the property, facilities, developments and improvements financed by the issuance of such bonds, notes, or other obligations or by the mortgage of real property or the creation of a security interest in available revenues, assets or other property. Such bonds, notes, or other obligations will not be general obligations of the District and will not constitute a debt of the District or lending of the public credit. The District has issued and expects to issue, revenue debt on behalf of various for-profit and non-profit undertakings, the proceeds of which are used for public purposes beneficial to the District.

All debt of the District must be authorized and issued pursuant to an act of Council and, in the case of general obligation bonds, the Council may require a voter referendum. The issuance of income tax secured revenue bonds or general obligation bonds for capital project purposes also is subject to prior approval by Council. Acts authorizing the issuance of general obligation revenue anticipation notes take effect on the date of enactment of such acts. Acts authorizing the issuance of any borrowings of the District, except those authorized as emergency legislation, acts authorizing the renewal or refunding of bond anticipation notes, and acts authorizing general obligation revenue anticipation notes, are subject, unless waived, to a 30-legislative day Congressional review period and possible disapproval by Congress and the President. To date, there has never been a voter referendum on the issuance of general obligation bonds.

## Long-Term Obligations

***General Obligation Bonds***. Following the issuance of the Bonds, the District will have approximately $3.53 billion of general obligation bonds outstanding. With the exception of approximately $100 million of unhedged variable-rate debt (the Series 2014A Bonds and a small portion of the Series 2014B Bonds, as described in the following paragraph and Table 32), all other general obligation bonds have been issued on a fixed-rate basis, synthetically converted to fixed-rate obligations or otherwise hedged by a floating-to-fixed interest rate swap to hedge against interest rate fluctuations.

***General Obligation Direct Purchase Bond Program***. On June 26, 2014, the District issued the Series 2014A Bonds in the aggregate principal amount of $99.985 million and Series 2014B Bonds in the aggregate principal amount of $224.315 million (together, the "Series 2014 Multimodal Bonds"). The Series 2014 Multimodal Bonds were sold on a direct purchase basis to Banc of America Preferred

Funding Corporation, and a portion of the proceeds of the bonds financed $100 million of capital project expenditures in the District's Fiscal Year 2014 capital improvements plan. The balance of the Series 2014 Multimodal Bonds were used to refund the $224.3 million Series 2008C Bonds previously held by Wells Fargo Bank, N.A. The Series 2014 Multimodal Bonds are issued under a Master Trust Indenture dated as of December 1, 2004, as supplemented and amended, by and between the District and Wells Fargo Bank, N.A., as trustee. Table 32 provides summary information with respect to such direct purchase obligations.

**Table 32. General Obligation Direct Purchase Bonds**
as of April 15, 2015

| Series | Par Outstanding | Final Maturity | Index | Reset Mode/Payment Frequency | Direct Purchase Bank | Direct Purchase Agreement Date | Direct Purchase Expiration Date |
|---|---|---|---|---|---|---|---|
| 2014A | $ 99,985,000 | 6/1/2039 | SIFMA | 7-Day Reset / Monthly Pay | Banc of America Preferred Funding Corp. | 6/26/2014 | 6/23/2017 |
| 2014B[(1), (2), (3)] | $224,315,000 | 6/1/2027 | LIBOR | Monthly Reset / Monthly Pay | Banc of America Preferred Funding Corp. | 6/26/2014 | 6/23/2017 |
| **Total** | **$324,300,000** | | | | | | |

(1) The District's Multimodal General Obligation Refunding Bonds (Variable Rate Demand Obligations), Series 2008C were refunded on June 26, 2014 by the refunding portion of the Series 2014B Bonds.

(2) The $224,300,000 refunding portion of the Series 2014B Bonds, which are the subject of a swap agreement, is synthetically fixed where the District pays the associated swap rate of 3.615% plus a LIBOR index rate spread of 0.42% and receives 67% of LIBOR.

(3) The $15,000 new money portion of the Series 2014B Bonds is unhedged variable rate bonds issued in SIFMA Index mode.

***Income Tax Secured Revenue Bonds***. The Income Tax Secured Bond Authorization Act of 2008 (D.C. Law 17-254; D.C. Official Code §§ 47-340.26-36), as amended (the "Income Tax Bond Act") authorized the District to issue income tax secured revenue bonds (the "Income Tax Bonds") to finance some or all of the capital projects in the District's on-going capital improvements program. Income Tax Bonds are secured by a pledge of the revenues generated by the individual income tax and business franchise taxes imposed by the District (the "Income Tax Revenues"), which are generally paid directly to and collected by a collection agent. After transfers in April, May and June of each year by the collection agent to the trustee for the Income Tax Bonds of amounts needed in the upcoming Fiscal Year to pay debt service on such bonds, all remaining income tax proceeds are released to the District. The holders of any Income Tax Bonds have a first lien on and a pledge of Income Tax Revenues superior to that of the holders of the Bonds and general obligation bonds of the District.

The District has approximately $4.3 billion of Income Tax Bonds outstanding, including $221.8 million of variable-rate bonds.

***Other Long-Term Obligations***. For accounting and reporting purposes, the District's CAFR for Fiscal Year 2014 treats the 20-year lease between the District and S/C 225 Virginia Avenue, LLC as a financing agreement, reports it as Other Loans Payable in the District's long-term liabilities and includes it in the Debt Ceiling calculations.

The Mayor proposed and the Council approved bonds issued in 2007 (in the initial aggregate principal amount of $34.1 million), 2010 (in the initial aggregate principal amount of $53.2 million) and 2012 (in the initial aggregate principal amount of $39.6 million) to finance a portion of the District's New Communities Initiative, which is a large scale and comprehensive plan that provides housing infrastructure with a special focus on public housing, provides critical social support services, decreases the concentration of poverty and crime, enhances access to education and provides training and employment education to neighborhoods where crime, unemployment and truancy converge to create intractable physical and social conditions. Such bonds are revenue bonds secured by that portion of the

District's deed recordation tax and real property transfer tax revenues that is deposited into the District's Housing Production Trust Fund and are currently outstanding in the combined principal amount of approximately $115.6 million. Based on the Fiscal Year Budget Support Technical Clarification Amendment Act of 2014 (D.C. Law 20-117), beginning in Fiscal Year 2014, New Communities projects selected for financing with bond proceeds will no longer be funded from the Housing Production Trust Fund but will be funded with Income Tax Bonds.

In Fiscal Year 2011, the District issued $82.6 million of GARVEE bonds to finance a portion of the East Washington Traffic Initiative (the 11th Street SE Bridge project). In Fiscal Year 2013, the District issued $42.9 million of additional GARVEE bonds for the 11th Street SE Bridge project. The District currently has approximately $104.4 million of GARVEE bonds outstanding. GARVEE bonds are secured by and payable solely from certain transportation grants received from, or anticipated to be received from, the federal government from moneys available in the Highway Transportation Fund. No District funds are pledged to pay GARVEE bonds and the Home Rule Act and the Debt Ceiling Act exclude GARVEE bonds from their respective debt limitation provisions, as discussed above.

In addition to the standard fixed-rate general obligation bonds and income tax secured revenue bonds, the District uses variable-rate bonds, synthetic fixed-rate bonds (through interest rate swaps), or revenue bonds (including TIF Bonds and PILOT Notes (as hereinafter defined)) for special projects, and a master equipment lease/purchase program to diversify its debt portfolio, minimize debt service costs, and efficiently manage its capital assets and liabilities.

***Interest Rate Swap Agreements***. The District has used interest rate swaps as part of prudent fiscal management to lower its overall cost of borrowing. The District's swap agreements, subject to one exception relating to a floating-to-floating interest rate swap, were entered into in conjunction with the issuance of floating-rate general obligation bonds. At the time each such swap agreement was executed, the fixed rate paid by the District pursuant to the floating-to-fixed interest rate swap agreement was less than the fixed rate that would have been payable on fixed rate bonds. To manage its exposure to counterparty risk, the District entered into agreements only with counterparties that had a rating of at least "A." To manage its exposure to basis risk, the floating rate index selected at the time of execution of each agreement was that which, in the District's judgment, would approximate the rate on the related variable-rate bond series.

The District can elect to terminate a swap, but the counterparty does not have an option to terminate the transactions, and the counterparty is expected to perform through the transaction's maturity. The District or a counterparty may terminate a swap if the other party fails to perform under the terms of the contract. In addition, the Schedules to the International Swaps and Derivatives Association Master Agreement define an "additional termination event," which provides that the swap may be terminated if the counterparty, the counterparty's credit support provider, if any, or the District has triggered such event. The District is not required to post collateral support under the swap agreements, and in the event a termination payment is payable by the District, it is payable from the general funds of the District, subject to appropriation. See Table 33 for specific termination trigger events.

The following table provides a brief description of the principal features of each interest rate swap agreement to which the District is a party. For a description of the underlying obligations to which the swap agreements described below relate, see Note 8 to the Fiscal Year 2014 Financial Statements.

## Table 33. Interest Rate Swaps - Summary Information[1]

as of June 2, 2015

| | | | | |
|---|---|---|---|---|
| 1. | **Related Bond Series** | **General Obligation Bonds Series 2001C, 2001D** | **General Obligation Bonds Series 2004B** | **Multimodal General Obligation Bonds Series 2014B [2]** |
| 2. | **Initial Notional Amount** | $278,080,000 | $19,525,000 | $224,300,000 |
| 3. | **Current Notional Amount** | $166,770,000 | $19,525,000 | $224,300,000 |
| 4. | **Fair Value** | $612,059 | ($898,995) | ($39,220,631) |
| 5. | **Termination Date** | June 1, 2029 | Two portions terminating with associated bond maturities on June 1, 2016, and 2020 | June 1, 2027 |
| 6. | **Type of Swap** | Floating-to-Floating | Floating-to-Fixed | Floating-to-Fixed |
| 7. | **Rate Paid by Counterparty** | 60 to 90% of LIBOR, based on LIBOR rate on reset date | 1.65%, and 1.81% plus CPI-U rate | 67% of LIBOR |
| 8. | **Rate Paid by District** | 67% of LIBOR | 4.794%, and 5.121% | 3.615% |
| 9. | **Counterparty** | JP Morgan Chase Bank, N.A. | JP Morgan Chase Bank & Co. | Morgan Stanley Capital Services Inc. |
| 10. | **Counterparty Rating (S&P/Moody's/Fitch)** | A+/Aa3/AA- | A/A3/A+ | A-/A3/A |
| 11. | **Collateral/Credit Support** | None | Assured Guaranty Ltd., insurance for swap payments by District; Guarantee of counterparty by parent | None |
| 12. | **Priority of Payments** | | | |
| | **a. interest payments** | General obligation of the District | General obligation of the District | General obligation of the District |
| | **b. termination payments** | General funds of the District, subject to appropriation | General funds of the District, subject to appropriation | General funds of the District, subject to appropriation |
| 13. | **Additional Termination Events** | Senior unsecured debt rating falls below BBB- or Baa3 | Senior unsecured debt rating falls below BBB- or Baa3 | Senior unsecured debt rating falls below BBB- or Baa3 |

(1) **AWC Agreement**. In addition to the swaps summarized in this table, in connection with the issuance of the Anacostia Waterfront Corporation (AWC) PILOT Revenue Bonds issued in September 2007 (the "AWC Bonds"), AWC entered into a floating-to-fixed interest rate swap with Wells Fargo Bank, N.A., formerly Wachovia Bank, N.A., under which AWC pays a fixed rate and receives a variable rate that matches the rate on the AWC Bonds. The notional amount of such agreement is equal to the principal amount of the AWC Bonds. Since the issuance of such AWC Bonds, the District has, pursuant to statute, abolished AWC and assumed its assets and obligations, including the payment of the AWC Bonds, but only from the specific revenue streams pledged as security for such bonds.

(2) **The Series 2014B Bonds**. The Series 2014B Bonds were issued to refund the District's Series 2008C Bonds, which were issued to refund the District's Series 2002B Bonds. The swap agreement was originally entered into by the District in connection with the Series 2002B Bonds.

***Economic Development Initiatives of the District***. The District finances a portion of the costs of certain privately owned, economic development projects and public infrastructure projects through the issuance of tax increment bonds or notes ("TIF Bonds") and Payment In Lieu of Taxes revenue bonds and notes ("PILOT Notes"). TIF Bonds generally are payable from incremental increases in certain dedicated real property and sales tax revenues generated from the respective project TIF Areas. Some TIF Bonds and PILOT Notes are additionally secured by the Downtown TIF Area. The Downtown TIF Area is located substantially in the northwest quadrant of the District of Columbia and covers a substantial portion of the downtown area of the District of Columbia (the "Downtown TIF Area"). TIF Bonds and PILOT Notes are not general obligation debt of the District, and do not involve a pledge of the full faith and credit of the District.

Table 34 lists all outstanding TIF Bonds and PILOT Notes of the District, as well as additional debt that has been authorized but remains unissued.

**Table 34. TIF Bonds and PILOT Notes[(1)]**

| **Project Name** | **Initial Issuance Amount** | **Amount Outstanding as of June 1, 2015** | **Authorization Remaining** |
|---|---|---|---|
| *Authorized Under the Tax Increment Financing Authorization Act of 1998 (as amended)* | | | |
| Gallery Place TIF | $ 73,650,000 | $ 46,730,000 | $ 0 |
| Mandarin Oriental Hotel TIF | 45,995,387 | 17,529,277 | 0 |
| **Subtotal** | **$ 119,645,387** | **$ 64,259,277** | **$ 0** |
| *Authorized Under the Retail Incentive Act of 2004 (as amended)* | | | |
| Downtown Retail Priority Area TIF Notes | 18,503,326 | 7,421,293 | 0 |
| Fort Lincoln Retail Priority Area TIF Note | 10,000,000 | 3,300,000 | 0 |
| Great Streets Retail Priority Area TIF Notes | 5,934,731 | 5,045,618 | 0 |
| **Subtotal** | **$ 34,438,057** | **$ 15,766,911** | **$ 0** |
| *Authorized Under the Payment In Lieu of Taxes Act of 2004 (as amended)* | | | |
| Anacostia Waterfront Corporation PILOT Revenue Bonds | 111,550,000 | 62,520,000 | 0 |
| Rhode Island PILOT Note | 7,200,000 | 5,568,116 | 0 |
| Southeast Federal Center PILOT Notes (The Yards) | 40,460,000 | 39,246,155 | 49,540,000 |
| **Subtotal** | **$ 159,210,000** | **$ 107,064,271** | **$ 49,540,000** |
| *Authorized Under Other Acts* | | | |
| Convention Center Hotel TIF/Revenue Bonds | 176,380,000 | 175,300,000 | 0 |
| O Street Market TIF | 38,650,000 | 38,650,000 | 3,000,000 |
| Verizon Center Sales Tax Revenue Notes | 50,000,000 | 49,830,000 | 0 |
| Southwest Waterfront TIF/PILOT | 0 | 0 | 198,000,000 |
| Skyland TIF | 0 | 0 | 40,000,000 |
| **Subtotal** | **$ 265,030,000** | **$ 263,780,000** | **$ 241,000,000** |
| **TOTAL** | **$ 578,323,444** | **$ 450,870,460** | **$ 290,540,000** |

(1) The Downtown TIF Area is pledged as credit enhancement on seven projects should the footprint tax increment be insufficient to pay debt service: (i) Gallery Place, (ii) Mandarin Oriental Hotel, (iii) Howard Theatre (through the Great Streets Retail Priority Area program), (iv) O Street Market, (v) Verizon Center, (vi) Southwest Waterfront, and (vii) Skyland. Of this group, in the past five years, only the Howard Theatre project has required a contribution from the Downtown TIF Area increment to make debt service payments.

***Energy Efficiency Initiative***. The District finances the energy efficiency initiative ("PACE Program") through a special assessment imposed on voluntarily participating real property pursuant to the Energy Efficiency Financing Act of 2010, effective May 27, 2010 (D.C. Law 18-183) ("Energy Efficiency Act"). If an owner of real property located in the District wishes to participate in the PACE Program and meets the qualifications for the program, the Energy Efficiency Act authorizes the District to issue debt for the energy efficiency improvements on the participating property. The debt issued by the District is a special obligation of the District paid solely from the voluntary special assessment imposed on the property based on the amount of the debt issued to finance the energy efficiency improvements and the projected energy savings. Currently, there is one outstanding note issued by the District to EagleBank for the PACE Program in the principal amount of $340,000 for a single building with the maturity date of June 1, 2033. The District is expected to issue a second note for the PACE Program in the estimated principal amount of $680,000 in Fiscal Year 2015. If there is sufficient participation at some point in the future, the District may bundle outstanding notes into a single offering.

***Ballpark Financing***. The Ballpark Omnibus Financing and Revenue Act of 2004 (the "Ballpark Financing Act") provided public financing for (i) the construction of a baseball stadium in the District (the "Ballpark"), to be owned by the District and leased (the "Stadium Lease") to the owners of the Washington Nationals, and (ii) the renovation of Robert F. Kennedy Memorial Stadium ("RFK") (collectively, the "Ballpark Project"). The Ballpark Financing Act provided for the creation of a Ballpark Revenue Fund (the "Ballpark Revenue Fund") within the General Fund, into which all receipts are deposited from the following (collectively, "Ballpark Revenues"): (i) taxes on ticket sales, parking and concessions of food, beverages and merchandise at the Ballpark and RFK (during baseball games) (the "Ballpark Sales Tax"), (ii) a gross receipts tax on certain businesses within the District in accordance with the schedule described in footnote 14 to Table 5 (the "Ballpark Fee"), (iii) the Ballpark Utilities Tax (described below), and (iv) rent payments under the Stadium Lease.

The Ballpark Revenue Fund is pledged as the source of payment for the District's Ballpark Revenue Bonds, which were issued in the amount of $534.8 million in May 2006, to fund the Ballpark Project. The Ballpark Revenue Bonds were originally issued as Taxable Series 2006A-1, Taxable Series 2006A-2, Series 2006B-1 and Series 2006B-2 (Auction Rate Certificates) (collectively, the "Ballpark Bonds"). In May 2008, the Series 2006B-2 Bonds were converted to variable-rate demand obligations with credit enhancement in the form of a direct-pay letter of credit provided by Bank of America, N.A. In July 2011, a portion of the Series 2006B-2 Bonds, totaling approximately $22.7 million, was privately placed with PNC Bank, N.A. at a variable rate of interest for a term of three years. In July 2014, the District repaid in full the $21 million of outstanding Series 2006B-2 Bonds from excess pledged revenues.

The District collects a tax of 11% of the gross receipts from sales to non-residential customers by companies selling natural gas, landline telephone service, toll telecommunications service, mobile telecommunications service, heating oil and artificial gas. The "Ballpark Utilities Tax" is equal to: (i) one-eleventh of the aforementioned 11% gross receipts tax and (ii) a tax of $0.0007 per kilowatt-hour of electricity delivered to non-residential end-users in the District of Columbia.

**Other Capital Funding**

***Master Equipment Lease/Purchase Program***. The District began a Master Equipment Lease/Purchase Program (the "Program") in 1998 to provide tax-exempt financing for projects with short-term to intermediate-term useful lives. As a result, rolling stock such as police, emergency and public works vehicles has been acquired on a relatively short-term lease/purchase basis rather than with the proceeds of long-term bonds. This Program has enabled the District to improve its asset/liability management by matching the useful life of the asset being financed to the amortization of the liability (5 to 10 years).

As of June 1, 2015, the District had financed approximately $519 million of its capital equipment needs through the Program since its inception, and there was approximately $100 million in principal outstanding. Lease payment obligations are payable subject to appropriation, and are neither debt nor general obligations of the District; such obligations, however, are subject to the Debt Ceiling.

***Underground Electric Power Lines***. The District expects to participate in the financing of undergrounding of a portion of the electric power lines located in the District of Columbia. The electric power line undergrounding bonds are authorized to be issued in a par amount not to exceed $375 million. The electric power line undergrounding bonds will not be paid from District funds, but, instead, from revenues generated from a nonbypassable electric surcharge (the "Charge") billed to and collected from electric customers by the public utility (currently Pepco Holdings Inc. ("Pepco")), as servicing agent to the District. The Charge must be approved by the District's Public Service Commission ("PSC") through a financing order ("Financing Order") prior to billing and collection. As such, the obligations arising from this financing are not the District's debt and will not be subject to the Debt Ceiling. On November 24, 2014, the PSC issued the Financing Order that, among other things, approved the power line undergrounding plan, the Charge, and the allocation of the Charge to different classes of Pepco's customers. Subsequently, the Apartment & Office Building Association ("AOBA") filed an appeal in the D.C. Court of Appeals contesting the Charge and the plan. There is no indication at this time as to when the court will decide this case, or a date certain to commence the debt issue to finance the undergrounding of the power lines because of the pending appeal. On April 30, 2014, the Chicago-based Exelon Corporation ("Exelon") announced its preliminary agreement to purchase Pepco. In September 2014, Pepco shareholders voted to approve the acquisition by Exelon. There is no indication from Pepco or Exelon that the transaction will impact the undergrounding project.

**Short-Term Obligations**

The District from time to time issues short-term tax revenue anticipation notes, which must be repaid by the end of the Fiscal Year in which they are issued, in order to finance its seasonal cash flow needs. The District issued tax revenue anticipation notes in Fiscal Years 2011-2014, as shown below. All tax revenue anticipation notes issued in Fiscal Years 2011-2014 were repaid at the end of each respective Fiscal Year.

The District issued $400 million of Fiscal Year 2015 Tax Revenue Anticipation Notes on November 18, 2014 to finance general governmental expenses of the District in anticipation of the collection of receipt of revenues for Fiscal Year 2015. The District expects to repay the tax revenue anticipation notes issued in Fiscal Year 2015 by the end of September 2015.

**Table 35. General Obligation Tax Revenue Anticipation Notes**
Fiscal Years 2011-2015
($ in millions)

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Total Notes Issued | $700 | $820 | $675 | $405 | $400 |
| Percentage of General Fund Revenues[(1)] | 11.68% | 12.45% | 9.85% | 5.71% | 6.05% |

(1) The total amount of tax revenue anticipation notes outstanding at any time during a Fiscal Year may not exceed 20% of the total anticipated tax revenue of the District for such Fiscal Year. Such notes must mature within the Fiscal Year in which they are issued.

Sources: Exhibit A-2 General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance, District's CAFRs for Fiscal Years 2011-2014. The percentage for Fiscal Year 2015 is based on the District's February 2015 Revenue Estimate.

Table 36 shows the District's outstanding Tax-Supported Debt following the issuance of the Bonds.

**Table 36. Outstanding Tax-Supported Debt**

| Security | Par Outstanding | Percentage[(1)] |
|---|---|---|
| General Obligation Bonds | $3,530,770,000 | 37.2% |
| Income Tax Secured Revenue Bonds | 4,327,855,000 | 45.5 |
| TIFs & PILOTS | 231,787,728 | 2.4 |
| Certificates of Participation (COPs) | - | 0.0 |
| Capital & Master Leases | 202,084,186 | 2.1 |
| Ballpark Revenue Bonds | 467,360,000 | 4.9 |
| HPTF Bonds | 115,565,000 | 1.2 |
| Convention Center Bonds | 621,800,000 | 6.5 |
| Qualified Zone Academy Bonds | 4,790,567 | 0.1 |
| **TOTAL** | **$9,502,012,481** | **100.0%** |

(1) Numbers may not add due to rounding.

Tables 37 and 38 show the District's Tax-Supported Debt for Fiscal Years 2010-2014 on a per capita basis and as a percent of assessed value.

**Table 37. Tax-Supported Debt Per Capita**
Fiscal Years 2010-2014

| Fiscal Year | Tax-Supported Debt[1] | Tax-Supported Debt Per Capita[2] |
|---|---|---|
| 2010 | $6,955,944,000 | $11,495 |
| 2011 | 7,624,392,000 | 12,305 |
| 2012 | 7,831,218,000 | 12,363 |
| 2013 | 8,393,885,000 | 12,985 |
| 2014 | 8,676,082,000 | 13,168 |

(1) The debt calculation stated in Table 37 is different from and does not necessarily reflect the Tax-Supported Debt for Debt Ceiling purposes.
(2) The prior per capita amounts have been updated to reflect revised census population estimates.

Sources: District's CAFR for Fiscal Year 2014; Statistical Section; Convention Center debt was obtained from the District's Notes to Financial Statements from CAFRs for prior Fiscal Years.

**Table 38. Tax-Supported Debt and Assessed Value of Taxable Property**

| Fiscal Year | Estimated Actual Values[1] | Tax Supported Debt | Debt / Estimated Actual Value[2] |
|---|---|---|---|
| 2010 | $150,117,289,000 | $6,955,944,000 | 4.6% |
| 2011 | 139,287,502,000 | 7,624,392,000 | 5.5 |
| 2012 | 146,501,957,000 | 7,831,218,000 | 5.3 |
| 2013 | 151,744,722,000 | 8,393,885,000 | 5.5 |
| 2014 | 160,300,070,000 | 8,676,082,000 | 5.4 |

(1) Assessed value is 100% of estimated actual value.
(2) Median debt to value percentage for Moody's Aa rated municipalities is 3.02%.

## THE DISTRICT'S ECONOMIC RESOURCES

### Overview

Although the District of Columbia is primarily known as the Nation's Capital, it is also an international city, a cultural center and the central city of the seventh largest metropolitan area in the United States. The District of Columbia covers approximately 61 square miles and had a resident population of 658,893 as of July 1, 2014 according to the U.S. Census Bureau estimates. The Washington primary metropolitan statistical area (the "PMSA") encompasses 20 jurisdictions in Maryland, Virginia and West Virginia, as well as the District.

As the Nation's Capital, the District of Columbia is the seat of the three branches of the federal government and headquarters for most federal departments and agencies. In addition, the District is host to 206 foreign embassies and other recognized diplomatic missions. A number of international organizations, such as the International Monetary Fund, the World Bank, the World Health Organization and the Organization of American States, have their headquarters in the District.

In 2013, approximately 17.4 million domestic visitors and 1.6 million international visitors traveled to the District. The District was the eighth most visited destination in the U.S. for international travelers in 2013. Visitors are attracted not only by the need to do business with the federal government and regional businesses but also by the national monuments, 350 historic sites, more than 50 museums and other major cultural attractions. The John F. Kennedy Center for the Performing Arts, the National Gallery of Art, the Smithsonian Institution and the Library of Congress are among the cultural institutions of international renown located in the District of Columbia. In 2013, total visitor spending in the District of Columbia was approximately $6.7 billion.

The District's tourism statistics for 2014 are expected to be released in the summer of 2015 by Destination DC, a private, non-profit corporation that supports the District's travel and tourism sector. Preliminary statistics show approximately 18.3 million domestic visitors traveled to the District in 2014 with total visitor spending increasing to approximately $6.8 billion.

The Washington, D.C. area has developed into a diverse economic region with federal government employment providing a base for significant expansions in services, aerospace, high technology and communications, and as a site for corporate headquarters. The District of Columbia is served by three airports (Ronald Reagan Washington National Airport, primarily for domestic flights and Washington Dulles International Airport and Baltimore-Washington Thurgood Marshall International Airport for domestic and international flights), as well as passenger and freight rail networks and passenger buses.

**Recent Economic Development**

Economic development in the District continues to be strong. Currently, there are 15 hotels under construction (representing 2,800 rooms) and seven hotels are expected to break ground over the next 18 months (representing an additional 1,600 rooms). In the first quarter of calendar year 2015, multi-family housing construction grew as compared to the same period for 2014 with 2,680 groundbreakings in 2015 compared to 1,081 groundbreakings in 2014. At the CityCenter DC Project, 16 of the 21 luxury retailers are now open. Walmart has also opened two stores in the District with a third under construction and two others planned to break ground in the next 18 months.

### Land and Land Use

The borders of the District were fixed originally by Presidential proclamation in 1791 and later amended by Acts of Congress in 1846, 1927 and 1945. The District by statute cannot annex land in surrounding jurisdictions.

Due largely to the presence of the federal government and the many other governmental and nonprofit organizations that maintain offices and facilities in the District, the majority of land in the District is exempt from real property taxation. Table 39 sets forth the relative percentages of land in the District devoted to various taxable and tax-exempt uses.

**Table 39. Land Uses by Tax Classification for Tax Year 2014**

| USE | AREA |
|---|---|
| Tax Exempt | |
| Federal tax-exempt | 36% |
| Other tax-exempt | 13 |
| District government | 7 |
| Taxable | |
| Residential | 36 |
| Commercial | 8 |
| Vacant | 0 |
| **TOTAL** | **100%** |

Source: District of Columbia Office of Tax and Revenue.

### Population

The U.S. Census Bureau estimated that the District of Columbia's population was 658,893 as of July 1, 2014, which is an increase of 12,444 or 1.93%, as compared to July 1, 2013. From April 1, 2010 to July 1, 2014, the District of Columbia experienced a higher rate of population growth (9.5%) than the average rate for the United States (3.3%).

Per capita personal income in the District of Columbia has been consistently higher than all of the 50 states. In 2014, per capita personal income in the District of Columbia was $76,532, compared to $46,129 for the United States as a whole, based on estimates by the U.S. Bureau of Economic Analysis. Based upon data collected by the U.S. Census Bureau from 2009 through 2013, median household income over that period for District of Columbia residents was $65,830, compared to $53,046 nationwide. The high per capita and household incomes in the District result from a combination of factors, including multiple-earner households, small household size (average of 2.20 persons based upon data collected by the U.S. Census Bureau from 2013), and a large percentage of college graduates employed in highly-skilled occupations. The District of Columbia has a significant number of lower-income residents, with an average of 18.6% of the population below the poverty line in 2013. Based upon data collected by the U.S. Census Bureau from 2009 through 2013, an average of 88.4% of District of Columbia residents age 25 or older are high school graduates, compared to 86.0% nationwide; 52.4% of District of Columbia residents in the same age group had earned a bachelor's degree (or higher), compared to 28.8% nationwide.

## Table 40. Demographic Statistics

| | Population | Median Age (Years) | Per Capita Personal Income | | |
|---|---|---|---|---|---|
| **Year** | **D.C.** | **D.C.** | **D.C.** | **U.S.** | **Ratio of D.C. to U.S.** |
| 2010 | 605,125 | 33.8 | $69,431 | $40,144 | 173.0% |
| 2011 | 619,624 | 33.7 | $74,103 | $42,332 | 175.1% |
| 2012 | 633,427 | 33.6 | $75,950 | $44,200 | 171.8% |
| 2013 | 646,449 | 33.8 | $75,329 | $44,765 | 168.3% |
| 2014 | 658,893 | N/A | $76,532 | $46,129 | 165.9% |

Sources: U.S. Department of Commerce, U.S. Census Bureau; U.S. Department of Commerce, Bureau of Economic Analysis.

## Table 41. Sources of Income of District Residents[1]

| Source of Income | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Net earnings | 72.5% | 71.9% | 71.8% | 70.9% | 70.9% |
| Dividends, interest and rents | 14.7% | 15.7% | 16.5% | 17.0% | 17.0% |
| Transfer payments[2] | 12.8% | 12.4% | 11.7% | 12.1% | 12.1% |

(1) Each of the years listed is a calendar year.

(2) Transfer payments consist largely of government benefits received by individuals, including retirement and disability insurance benefits (e.g., workers' compensation), medical benefits (e.g., Medicare), income maintenance benefits (e.g., Supplemental Security Income benefits, family assistance payments and food stamps) and unemployment insurance compensation.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## Table 42. Personal Income Tax Filers and Liability by Income Level
(2014)

| Income Level | Number of Filers | Percentage of Total Filers | Percentage of Total Income Taxes Collected |
|---|---|---|---|
| $100,001 and higher | 61,740 | 17.0% | 72.1% |
| $75,001 - $100,000 | 29,385 | 8.0 | 9.0 |
| $50,001- $75,000 | 49,504 | 13.6 | 9.5 |
| $25,001- $50,000 | 83,056 | 22.7 | 7.5 |
| $10,001 - $25,000 | 69,113 | 18.9 | 1.8 |
| $10,000 and lower | 72,295 | 19.8 | 0.1 |
| | 365,093 | 100.0% | 100.0% |

Source: District's CAFR for Fiscal Year 2014; Statistical Section, Exhibit S-2H.

**Employment and Industry**

***Employment***. The following statistics are based on estimates by the U.S. Bureau of Labor Statistics and are not seasonally adjusted. In March 2015, total resident employment in the PMSA was approximately 3,115,244 (preliminary), and total resident employment in the District of Columbia was approximately 353,882 (preliminary), which is 11.36% of the PMSA total.

District residence employment, as measured by the 3-month moving average, was up 12,232, or 3.6%, in March 2015 as compared to March 2014. The District's large service sector accounted for 744,300 (preliminary) jobs located in the District of Columbia as of March 2015. Public sector employment in the District of Columbia helped stabilize District employment during the U.S. economic recession that began in December 2007. As of March 2015, there were 235,167 public sector employment in the District of Columbia, up 0.9% as compared to March 2014.

***Income***. Wage and salary employment in the District of Columbia, as measured by the three-month moving average, was up 13,300, or 1.8%, in March 2015 as compared to March 2014. In the quarter ended December 2014, District of Columbia personal income grew by 4.1% and estimated wages and salaries of District of Columbia residents grew 4.8%, as compared to the same period one year earlier. The personal income gain was lower than the 4.5% gains experienced by the United States as a whole. For the quarter ended December 2014, wages and salaries earned in the District grew by 4.2%. The increase in wages and salaries earned in the District was largely due to growth in the private sector.

***Tourism***. The convention and tourism industry that services the business traveler, conventioneer and tourist is one of the District's core industries and is a major source of jobs and sales tax revenue.

The Walter E. Washington Convention Center opened in 2003 with the goal of increasing the District's desirability as a destination for business meetings and conventions. The Convention Center is approximately three times as large as the former convention center with approximately 2.3 million total square feet, including 703,000 square feet of exhibit space, 198,000 square feet for meeting space divisible into 77 rooms and 44,000 square feet for retail space and street-level restaurants. The meeting space includes a 52,000 square foot ballroom which is one of the largest in the Mid-Atlantic region.

With the opening of the Hotel in 2014, the District has further capabilities for citywide conferences and events with 1,175 hotel rooms, 49 suites and an additional 100,000 square feet of meeting space at the Hotel. A pedestrian connector joins the Convention Center and the Hotel.

***Universities***. Several colleges and universities are located in the District of Columbia, including Georgetown University, The George Washington University, Howard University, The Catholic University of America, Gallaudet University, American University and the University of the District of Columbia. Other major universities in the PMSA include George Mason University and the University of Maryland.

***Real Estate***. In the month of March 2015, there were 299 single family home sales (completed contracts) (4.2% more than the year before) with an average price of $684,966 (3.2% more than one year before) and 284 condo/co-op sales (completed contracts) (2.5% more than one year before) with an average price of $480,657 (6.5% more than one year before) in the District of Columbia. For the quarter ending March 2015, the commercial office space vacancy rate in the District of Columbia was 6.8% (excluding sublet space), down from 6.9% for the prior quarter.

***Outlook***. Federal government employment and contracting provide a solid foundation for the District's economic base. Over the past year, the District's private sector continued to add jobs and the number of private sector jobs in December 2014 is about 61,200 greater than when the U.S. recession began in December 2007, with the largest gains occurring in education, health and hospitality. The current outlook is for gains in the private sector to continue, offsetting reductions that could occur in government employment.

Tables 44 through 47 illustrate the growth and decline of various District of Columbia employment sectors over time, the largest private and non-profit employers in the District and the change in employment over time for the District, the PMSA and the nation.

**Table 44. Employment in the District of Columbia By Industry**
**(Annual Average Data)**[(1), (2), (3), (4)]
(in thousands)

| Calendar Year | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Federal Government | 210.6 | 212.2 | 208.3 | 204.7 | 197.0 |
| District Government | 32.5 | 31.1 | 30.8 | 31.4 | 33.5 |
| Public Transportation | 3.8 | 3.8 | 4.0 | 4.3 | 4.3 |
| Trade, Trans. & Utilities | 27.3 | 27.4 | 28.1 | 29.1 | 30.7 |
| Financial Activities | 26.9 | 27.6 | 28.2 | 29.0 | 30.3 |
| Professional & Business Services | 147.7 | 150.4 | 154.1 | 155.9 | 157.8 |
| Other private | 263.3 | 273.7 | 281.3 | 293.9 | 300.1 |
| **Total Service-Providing** | **700.4** | **713.0** | **720.2** | **733.3** | **738.5** |
| **Total Goods-Producing** | **11.7** | **13.2** | **14.6** | **15.0** | **15.3** |
| **Total Non-Farm** | **712.1** | **726.2** | **734.8** | **748.3** | **753.8** |

(1) Reflects place of employment, not place of residence.
(2) Not seasonally adjusted. Data may not equal totals due to independent rounding. Industry classification is based on the North American Industry Classification System ("NAICS").
(3) Data includes all full-time and part-time employees who received pay for any part of the pay period that includes the 12th of the month.
(4) Proprietors, self-employed individuals, unpaid family and volunteer workers, military personnel, internationally stationed workers, and private household workers are excluded.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

**Table 45. Top 10 Private Sector Employers in the District[1], [2]**
(2014)

| Employer | Rank[3] |
|---|---|
| Georgetown University | 1 |
| Washington Hospital Center | 2 |
| George Washington University | 3 |
| Children's National Medical Center | 4 |
| American University | 5 |
| Georgetown University Hospital | 6 |
| Howard University | 7 |
| Fannie Mae | 8 |
| Booz Allen & Hamilton Inc. | 9 |
| Allied Barton Security Services LLC | 10 |

(1) This data is produced through the Quarterly Covered Employment and Wage Program, a Bureau of Labor Statistics federal/state cooperative statistical program. Release of data under this program is subject to the Confidential Information Protection and Statistical Efficiency Act of 2002. The District cannot release company specific employment information without the written consent of each of the companies that are included in the release of such data. As a result, only rank information for the top ten principal employers is presented.

(2) Table 45 does not include the federal and local government as employers. With the exception of Booz Allen & Hamilton Inc. and Fannie Mae, all of the employers listed above are not-for-profit entities.

(3) Ranked by size of workforce.

Source: District's CAFR for Fiscal Year 2014; Statistical Section, Exhibit S-4B.

**Table 46. Employment and Unemployment in the Civilian Labor Force**
**Washington, D.C., Washington PMSA and the United States**
(Annual Average Data; Not Seasonally Adjusted)

**Washington, D.C.**

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Labor Force | 346,065 | 350,842 | 365,025 | 373,495 | 377,448 |
| Number Employed | 313,508 | 315,159 | 332,013 | 341,753 | 348,049 |
| Number Unemployed | 32,557 | 35,683 | 33,012 | 31,742 | 29,399 |
| Unemployment Rate | 9.4% | 10.2% | 9.0% | 8.5% | 7.8% |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

**Washington, PMSA**

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Labor Force | 3,150,740 | 3,198,176 | 3,237,000 | 3,258,140 | 3,262,248 |
| Number Employed | 2,950,673 | 3,003,103 | 3,050,759 | 3,078,147 | 3,098,615 |
| Number Unemployed | 200,067 | 195,073 | 186,241 | 179,993 | 163,633 |
| Unemployment Rate | 6.3% | 6.1% | 5.8% | 5.5% | 5.0% |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

**United States**
(in thousands, other than unemployment rate)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Labor Force | 153,889 | 153,617 | 154,975 | 155,389 | 155,922 |
| Number Employed | 139,064 | 139,869 | 142,469 | 143,929 | 146,305 |
| Number Unemployed | 14,825 | 13,747 | 12,506 | 11,460 | 9,617 |
| Unemployment Rate | 9.6% | 8.9% | 8.1% | 7.4% | 6.2% |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

**Table 47. Unemployment Rates[1]**

| Calendar Year | District | Washington, PMSA | U.S. |
|---|---|---|---|
| 2010 | 9.4% | 6.3% | 9.6% |
| 2011 | 10.2% | 6.1% | 8.9% |
| 2012 | 9.0% | 5.8% | 8.1% |
| 2013 | 8.5% | 5.5% | 7.4% |
| 2014 | 7.8% | 5.0% | 6.2% |
| March 2014 | 7.9%[2] | 5.2%[2] | 6.8%[2] |
| March 2015 | 7.3%[3], [4] | 4.7%[3], [4] | 5.6%[3] |

(1) Not seasonally adjusted. Annual rates are an average of monthly rates for the given year.
(2) Monthly rate for March 2014.
(3) Monthly rate for March 2015.
(4) Preliminary.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

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