

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2025

(Dollar amounts expressed in thousands)

The following is a discussion and analysis of the financial performance of the District of Columbia (District) for the fiscal year ended September 30, 2025, which includes a narrative overview and analysis of the District's financial activities. This information should be read in conjunction with the letter of transmittal, located in the Introductory Section of this report, and the District's basic financial statements and notes to the basic financial statements, which follow this discussion and analysis.

In fiscal year 2025, the District continued to demonstrate overall financial stability amid changing economic conditions. While revenues and expenses both increased, the growth in revenues was tempered by the expiration of certain temporary funding sources, and expenditures reflected ongoing investments in essential services and programs. The District's financial position was impacted by some adjustments due to resource allocations and required accounting changes, while long-term obligations were managed effectively through debt repayments and strong financial performance. Overall, fund balances remained healthy, supporting the District's ability to meet its commitments and maintain fiscal resilience.

FINANCIAL HIGHLIGHTS

- During fiscal year 2025, total District revenues increased by \$715,222, driven by a \$981,564 rise in general revenues. The increase in general revenues was primarily derived from growth in income and franchise taxes, along with other taxes such as deed and related real estate taxes. This growth was partially offset by a decline of \$266,342 in program revenues. The only decrease in program revenues occurred in operating grants and contributions which fell by \$508,053, mainly due to the expiration of certain stimulus funding provided through the American Rescue Plan Act of 2021 (ARPA). (See **Table MDA-3**)

As reported above, general revenues increased by \$981,564, or 8.65%, in fiscal year 2025. The most significant dollar increases in general revenues were in income and franchise tax, which rose by \$594,167 or 13.99%, and other taxes, which increased by \$226,449, or 24.61%. The increase in income and franchise tax revenues was driven by from earnings on non-wage income which were significantly influenced by strong performance in the stock market. In addition, taxable income

from wages also grew as a result of increasing employment by residents in the healthcare, education and hospitality sectors. Moreover, rising wages among higher-income residents and increased corporation franchise taxes contributed to the growth in this revenue stream. Corporation franchise taxes increased as businesses reported higher profits, especially within the technology sector, as capital investments in artificial intelligence expanded. An increase in the number of property transfer and financing transactions partially accounted for the growth in other taxes as deed recordation revenues grew by 24.54% and revenues from deed transfers increased by 19.41%. Revenues from inheritance and estates fell by approximately 1.00% while revenues from economic interests, though small in value, grew by 69.09%. Most of the revenue growth in other taxes was from residential transactions while commercial properties, other than large office transactions, represented the remaining transactions. (See **Table MDA-3**)

- Total expenses increased, though modestly, by \$451,417, or 2.32%, during fiscal year 2025. The most significant increases occurred in Public Transportation, which rose by \$212,997, or 42.06%, over the one-year period, Human Support Services which increased by \$208,503 or 2.96%, and Economic Development and Regulation which increased by \$70,899 or 7.95% over the same period. The overall increase in expenses in Public Transportation was mainly driven by additional costs incurred to comply with the WMATA Compact Agreement as well as increasing costs due to inflation. Increased expenses in Human Support Services resulted primarily from a new funding mechanism that increased dedicated tax collections from hospitals. This increased funding enabled the processing of separate payments to Medicaid Managed Care Organizations (MCOs) that would then utilize that revenue to make state directed payments (SDPs) as necessary. In addition, increases in expenses were also attributed to the DC Provider Fee Fund, which supports the District match for Medicaid fee-for-service hospital reimbursements. Economic Development and Regulation expenses increased overall as a result of a significant local budget increase in fiscal year 2025 for the Home Purchase Assistance Program and increases in disbursements of Preservation grants to local community development financial institutions. In addition, spending on community planning and design to support the Streets for People program rose to support this community-driven initiative that focuses on investing in infrastructure for streets, sidewalks, and alleys to encourage civic engagement and enjoyment of local amenities in the District. (See **Table MDA-3**)
- Total net position decreased by \$255,201, or 3.17%, down to \$7,799,311 compared to the prior year. This decrease was primarily due to the implementation of GASB Statement No. 101, *Compensated Absences*, which resulted in a downward adjustment to net position. In addition, although revenues increased, expenses also increased such that by the end of the year, expenses were higher than revenues, a circumstance which also decreased net position. The District made a higher volume of payments to claimants from the Unemployment Compensation Fund and also experienced significant declines in operating grants and contributions. When combined, such factors all contributed to the overall decrease in net position at the end of the year. (See **Table MDA-2**)
- The District's total long-term liabilities, which represent 86.90% of total liabilities, increased by \$1,800,609, or 10.86%, from the prior year. This was primarily due to new issuances of General Obligation Bonds and Income Tax Secured Revenue Bonds in October 2024 and May 2025. Bond proceeds were used to finance capital expenditures under the District's capital improvement plan and to refund other general obligation bonds and pay the costs of issuing and delivering other bonds. These increases were offset primarily by debt service payments on other General Obligation and Income Tax Secured Revenue Bonds. (See **Table MDA-2**)
- The combined fund balances of the governmental funds increased by \$205,729 to \$4,718,889 in fiscal year 2025. The increase in fund balance in the governmental funds was due to the issuance of several new bonds to cover capital outlays during the fiscal year. These bond issuances resulted in a significant increase in the fund balance of the General Capital Improvements Fund. (See **Table MDA-4**)

OVERVIEW OF THE FINANCIAL STATEMENTS

Table MDA-1 summarizes the major features of the financial statements of the District. The overview section which follows describes the structure and contents of each of the statements in more detail.

**Table MDA-1
Summary of the Financial Statements of the District**

	Government-wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Financial Statement Title	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Budgetary Comparison Statement	Statement of Net Position Statement of Revenues, Expenses, and Changes in Net Position Statement of Cash Flows	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Scope	Entire District entity (except fiduciary funds)	The day-to-day operating activities of the District for basic governmental services	The day-to-day operating activities of the District for business-type enterprises	Instances in which the District administers resources on behalf of others in a trustee capacity, such as employee benefits
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of balance information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Balances of current financial resources (assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances)	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	All resources held in a trustee or custodial capacity for others
Type of inflow and outflow of resources	All inflows and outflows during the year, regardless of when cash is received or paid	Near-term inflows and outflows of spendable resources	All inflows and outflows during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Basic Financial Statements

In general, the purpose of financial reporting is to provide users of financial statements with information that will help them make decisions or reach conclusions about a reporting entity. Many parties use the District's financial statements; however, they do not always use them for the same purpose. In order to address the needs of as many financial statement users as possible, the District, in accordance with generally accepted accounting principles (GAAP) presents: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements focus on the overall financial position of the District and include a Statement of Net Position and a Statement of Activities. The District prepares the government-wide financial statements using the economic resources measurement focus and the full accrual basis of accounting. These financial statements report on the primary government and its component units, which are aggregated into separate columns. The primary government is further divided into governmental activities and business-type activities. Governmental activities include the District's basic functional services which are mainly financed through taxes, intergovernmental revenues, and other revenues. Business-type activities include enterprise operations of the Office of Lottery and Gaming, the Unemployment Compensation Fund, and the Not-for-Profit Hospital Corporation (the Corporation), which are primarily funded by fees for services. These fees are expected to cover all or most of the costs of operations, including depreciation. Program or functional expenses are reduced by program-specific earned revenues, and by grants and contributions.

The purpose of the Statement of Net Position is to report all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the District as of September 30, 2025. Net position of the District is determined by subtracting total liabilities and deferred inflows of resources from total assets and deferred outflows of resources. Total net position is comprised of three components: (1) net investment in capital assets; (2) restricted; and (3) unrestricted. In general, evaluating increases or decreases in net position is one way to assess the District's financial position over time. Other factors, such as changes in population, the property tax base, infrastructure conditions, and other non-financial matters, should also be considered when assessing the overall financial health of the District.

The purpose of the Statement of Activities is to present the District's revenues and expenses. The difference between revenues and expenses is reported as a change in net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement also include items that will result in cash

flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The government-wide financial statements of the District are presented in Exhibits 1-a and 1-b on pages 56 and 57, respectively.

Fund Financial Statements

Unlike the government-wide financial statements, the fund financial statements focus on specific District activities rather than the District as a whole. Specific funds are established to maintain managerial control over resources or to comply with legal requirements established by external parties, governmental statutes, or regulations. The fund financial statements of the District are divided into three categories: (1) governmental funds; (2) proprietary funds; and (3) fiduciary funds.

Financial Statements of the Governmental Funds

Financial statements of the governmental funds consist of a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances. These statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting. Financial statements of the governmental funds have a short-term emphasis, and generally measure and account for cash and other assets that can easily be converted to cash. As such, these statements present the financial position of the District at the end of the fiscal year and how the governmental activities were financed during the year.

The balances and activities accounted for in the governmental funds are also reported in the governmental activities column of the government-wide financial statements; however, because the accounting basis used to prepare fund financial statements differs from that used to prepare government-wide financial statements, there are often significant differences in the totals presented in these statements. Therefore, an analysis is presented at the bottom of the Balance Sheet of the governmental funds, which reconciles the total fund balances to the amount of net position presented in the governmental activities column of the Statement of Net Position. In addition, there is an analysis following the Statement of Revenues, Expenditures, and Changes in Fund Balances that reconciles the total net change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column of the government-wide Statement of Activities.

The Balance Sheet of the governmental funds presents the District's nonspendable fund balance. It further classifies spendable fund balance as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts may be used.

The District presents funds that are significant to the District (major funds) in separate columns. All other governmental funds are aggregated and reported in a single column (nonmajor funds).

The governmental funds financial statements of the District are presented in Exhibits 2-a, 2-b, and 2-c on pages 58 through 60.

Financial Statements of the Proprietary Funds

Financial statements of the proprietary funds consist of a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These statements are prepared using the full accrual basis of accounting similar to that used to prepare the government-wide financial statements.

The proprietary funds are used to account for the activities of District entities that charge customers fees for the services provided. The Unemployment Compensation Fund is reported as a proprietary fund, similar to a public entity risk pool, because the District is required by law to recover its costs. The Office of Lottery and Gaming and the Not-for-Profit Hospital Corporation are the other two entities reported by the District as proprietary funds.

The proprietary funds financial statements of the District, which present the changes in financial position and condition of these three proprietary funds, are presented in Exhibits 3-a, 3-b, and 3-c on pages 63 through 65.

Financial Statements of the Fiduciary Funds

The fiduciary funds of the District include the Pension (and Other Employee Benefit) Trust Funds, Private-Purpose Trust Fund, and Custodial Fund. The financial statements of the fiduciary funds consist of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

The fiduciary fund statements are prepared using the full accrual basis of accounting which is also used to prepare the government-wide financial statements.

Assets held by the District (either as a trustee or an agent) for other parties, that cannot be used to finance the District's operating programs, are reported in the fiduciary funds. The District is responsible for ensuring that the activities reported in the fiduciary funds are consistent with each fund's intended purpose.

The fiduciary funds financial statements of the District are presented in Exhibits 4-a and 4-b on pages 66 and 67, respectively.

Component Units

Financial data of the District's discretely presented component units is reported in combining financial statements, which are presented in Exhibits 5-a and 5-b on pages 68 and 69, respectively. The District also reports two blended component units: the Not-for-Profit Hospital Corporation presented within the statements for proprietary funds; and the Tobacco Settlement Financing Corporation presented within the statements for nonmajor governmental funds.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements, which begin on page 71, present additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the progress of the District toward funding its obligation to provide pension and other postemployment benefits to District employees. Required supplementary information can be found on pages 161 through 167.

Financial statements of individual funds, combining statements (including nonmajor governmental funds), and supporting schedules are presented in the other supplementary information section on pages 169 through 208.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND OPERATIONS

The District's overall financial position remained strong during fiscal year 2025 despite the economic impacts of volatile inflationary conditions, significant federal policy changes affecting the District, and the waning consequences of COVID-19. The financial position and operations of the District for the past two fiscal years are summarized in **Tables MDA-2** and **MDA-3**. The information for fiscal years 2025 and 2024 is based on the government-wide financial statements presented on pages 56 and 57.

Table MDA-2
Net Position as of September 30, 2025 and 2024 (\$000s)

	Governmental activities		Business-type activities		Totals		Variance
	2025	2024	2025	2024	2025	2024	
ASSETS							
Current and other assets	\$ 10,225,947	\$ 9,489,595	\$ 424,604	\$ 473,487	\$ 10,650,551	\$ 9,963,082	\$ 687,469
Capital assets, net	19,773,203	18,735,329	-	34,213	19,773,203	18,769,542	1,003,661
Total assets	29,999,150	28,224,924	424,604	507,700	30,423,754	28,732,624	1,691,130
DEFERRED OUTFLOWS OF RESOURCES	642,514	494,971	-	-	642,514	494,971	147,543
LIABILITIES							
Long-term liabilities	18,376,392	16,578,828	9,976	6,931	18,386,368	16,585,759	1,800,609
Other liabilities	2,698,293	2,274,636	72,711	86,517	2,771,004	2,361,153	409,851
Total liabilities	21,074,685	18,853,464	82,687	93,448	21,157,372	18,946,912	2,210,460
DEFERRED INFLOWS OF RESOURCES	2,109,585	2,226,171	-	-	2,109,585	2,226,171	(116,586)
NET POSITION							
Net investment in capital assets	3,626,703	4,082,178	-	33,101	3,626,703	4,115,279	(488,576)
Restricted	3,247,902	1,881,774	338,026	364,008	3,585,928	2,245,782	1,340,146
Unrestricted	582,789	1,676,308	3,891	17,143	586,680	1,693,451	(1,106,771)
Total net position	\$ 7,457,394	\$ 7,640,260	\$ 341,917	\$ 414,252	\$ 7,799,311	\$ 8,054,512	\$ (255,201)

Table MDA-3
Change in Net Position for the Fiscal Year Ended September 30, 2025 and 2024 (\$000s)

	Governmental activities		Business-type activities		Totals		Variance
	2025	2024	2025	2024	2025	2024	
REVENUES							
Program revenues							
Charges for services	\$ 1,260,412	\$ 861,464	\$ 234,755	\$ 421,961	\$ 1,495,167	\$ 1,283,425	\$ 211,742
Operating grants and contributions	5,673,795	6,204,691	33,253	10,410	5,707,048	6,215,101	(508,053)
Capital grants and contributions	275,337	245,368	-	-	275,337	245,368	29,969
General revenues							
Property taxes	3,121,075	3,099,740	-	-	3,121,075	3,099,740	21,335
Sales and use taxes	2,184,263	2,084,662	-	-	2,184,263	2,084,662	99,601
Income and franchise taxes	4,842,694	4,248,527	-	-	4,842,694	4,248,527	594,167
Other taxes	1,019,041	800,376	127,401	119,617	1,146,442	919,993	226,449
Non-tax revenues	1,018,873	981,290	14,153	11,724	1,033,026	993,014	40,012
Total revenues	19,395,490	18,526,118	409,562	563,712	19,805,052	19,089,830	715,222
EXPENSES							
Governmental direction and support	1,732,747	1,697,573	-	-	1,732,747	1,697,573	35,174
Economic development and regulation	962,851	891,952	-	-	962,851	891,952	70,899
Public safety and justice	2,105,061	2,206,241	-	-	2,105,061	2,206,241	(101,180)
Public education system	4,449,701	4,386,680	-	-	4,449,701	4,386,680	63,021
Human support services	7,259,180	7,050,677	-	-	7,259,180	7,050,677	208,503
Operations and infrastructure	1,656,423	1,635,636	-	-	1,656,423	1,635,636	20,787
Public transportation	719,459	506,462	-	-	719,459	506,462	212,997
Interest on long-term debt	554,348	537,974	-	-	554,348	537,974	16,374
Office of lottery and gaming	-	-	179,697	290,273	179,697	290,273	(110,576)
Unemployment compensation	-	-	199,111	110,701	199,111	110,701	88,410
Not-for-profit hospital corporation	-	-	70,834	123,826	70,834	123,826	(52,992)
Total expenses	19,439,770	18,913,195	449,642	524,800	19,889,412	19,437,995	451,417
Increase (decrease) in net position before transfers	(44,280)	(387,077)	(40,080)	38,912	(84,360)	(348,165)	263,805
Transfers in (out)	32,742	17,350	(32,742)	(17,350)	-	-	-
Change in net position	(11,538)	(369,727)	(72,822)	21,562	(84,360)	(348,165)	263,805
Net position - October 1, as restated	7,468,932	8,009,987	414,739	392,690	7,883,671	8,402,677	(519,006)
Net position - September 30	\$ 7,457,394	\$ 7,640,260	\$ 341,917	\$ 414,252	\$ 7,799,311	\$ 8,054,512	\$ (255,201)

Note:

Refer to Note 1X - Reconciliation of Government-Wide and Fund Financial Statements, on page 93 for additional information on the differences between the full accrual basis of accounting used in this report and the modified accrual basis of accounting that the District used in the Fund Financial Statements.

Financial Analysis of the Government as a Whole

Total revenues increased by \$715,222, or 3.75%, while total expenses increased by \$451,417, or 2.32%, in fiscal year 2025 compared to the prior year.

Program revenues, which accounted for 37.76% of the District's total revenues in fiscal year 2025, decreased overall by \$266,342, or 3.44%. This was largely driven by a decrease in operating grants and contributions, a decline of 8.17%, as a result of the expiration of federal Coronavirus relief funding and financial resources provided under ARPA and other federal sources in fiscal year 2024. These funds were used to support the city's response to and recovery from the COVID-19 public health emergency. The overall decrease was offset by increased revenues from charges for services largely attributable to the implementation of an additional employer contribution to the Universal Paid Leave (UPL) Program. This change was enacted under the Universal Paid Leave (UPL) Program Amendment Act of 2024, which increased the amount employers are required to contribute and authorized the transfer of surplus funds—those not needed for program operations—from the UPL Fund to the District's local fund.

General revenues, which are derived primarily from taxes and represented 62.24% of the District's total revenues in fiscal year 2025, increased by \$981,564, or 8.65%, over the prior fiscal year. The increase resulted primarily from higher income and franchise tax, gross receipts taxes, and other taxes during fiscal year 2025. During the fiscal year, the District implemented strategies to address seemingly insurmountable financial and economic challenges, including those resulting from mandates imposed by the federal government. While such strategies were effective in reducing the impact of these challenges, the city also experienced increases in all tax categories in fiscal year 2025. Increased tax revenues further helped to successfully address the challenges faced. Similar to the prior fiscal year, revenue growth from income and franchise tax revenues was attributed to increased withholding due to gains in resident employment and rising wages among residents with higher incomes. A strong overall performance in the stock market also contributed to increased non-wage income which led to increases in individual income tax revenues. Capital investments in the technology sector, an industry that is critically important to the District, resulted in higher business profitability and ultimately strong growth in corporation franchise tax revenues. Tax revenues from other taxes, which includes deed recordation; deed transfers; inheritance and estate taxes; and economic interests also grew primarily from higher residential property transfers and financing transactions when compared to the prior year. There was higher activity in the single-family and multifamily property markets. Commercial transactions across all property types also increased although large office transactions decreased. The prevailing inflationary environment along with higher consumer incomes during the fiscal

year contributed to the increase in sales and use tax revenues. The tourism and hospitality sector, which includes the food and beverage industry, along with accommodation services, continued its economic rebound, especially during the first six months of the fiscal year. General revenues also increased in fiscal year 2025, though minimally, due to an increase in personal property tax revenues. This increase was driven by investments in information technology equipment which typically includes higher-value taxable assets that are further subject to increasing valuations through rising inflation. However, the overall increase in property tax revenues was offset by a decline in collections of real property taxes related to office buildings, due to a reduction in assessed values for these properties and other commercial properties. The weakened demand for office space from both the federal government and the private-sector continues to be an impediment towards, and negatively impacts, real property tax revenue growth in the District.

The District's expenses grew by \$451,417 in fiscal year 2025 because of increases in expenses across all but one functional area of governmental activities. The most significant increases were reported in the areas of Public Transportation; Human Support Services; Economic Development and Regulation; and Public Education System while Public Safety and Justice tempered the overall increase. Total expenses in business-type activities were significantly reduced in fiscal year 2025. The most substantial decrease was in the Office of Lottery and Gaming with a smaller decrease in the Not-for-Profit Hospital Corporation. These decreases, however, were offset by a relatively large increase in expenses of 79.86% for the Unemployment Compensation Fund, as a result of higher unemployment benefit payments.

Human Support Services expenses increased, year-over-year, primarily due to increased resources being available to support programs, activities, and operations in a wide range of areas. Increased expenses during fiscal year 2025 were also attributed to an increase in payments made to Medicaid Managed Care Organizations (MCOs). During the fiscal year, the Department of Health Care Finance was authorized to make separate payments to MCOs, funded by a new dedicated tax revenue source collected from hospitals.

Overall spending for Economic Development and Regulation grew due to several factors, including significantly increased project activities driven by larger initiatives and less project delays when compared to the prior fiscal year. In addition, expenses grew as a result of higher contract costs for housing rehabilitation across individual properties and related tasks. An increase in disbursements for distressed property grants also contributed to the increase in expenses. Further, increases in personnel services costs and contractual services for IT contracts occurred, along with increases in program costs, including community planning and design costs for the Streets for People

program, which was a one-time program funded in fiscal year 2025. Another major activity that resulted in increased expenses, year-over-year, was the disbursement, for the first time, of voucher payments funded under the Local Rent Supplement Program and spending under the Reentry Housing grant. In addition, executing three multi-year projects in the Small Buildings Program, awarding Preservation grants to local community development financial institutions, and additional funding for the Home Purchase Assistance Program accounted for a major increase in expenses.

Spending in the Public Education System rose as a result of additional retroactive payments that were made to union staff members. Pay increases for educators that were consistent with the execution of the Washington Teachers' Union Contract for fiscal year 2025 also resulted in increased spending. Increased Uniform Per Student Funding Formula rates for pupils and facilities also contributed to higher expenses in the fiscal year. Further, increased costs for private bus companies to transport eligible children to and from school and increased costs associated with the Parent Stipend program also contributed to higher expenditures in the Public Education System.

Public Safety and Justice experienced a significant decrease in overall expenditures largely due to a reduction in ARPA funding which expired in fiscal year 2024. As a result, funding for grants and programs, including for Boating Safety and Motor Carrier Safety grants, programs under Homeland Security and Emergency Management as well as other emergency planning programs had substantial reductions during fiscal year 2025.

The considerable growth in Public Transportation expenses was consistent with the significant increase in District funding towards the Washington Metropolitan Area Transit Authority (WMATA) Compact agreement. The majority of the increase was a subsidy to operate WMATA's core transit services (Metrorail, Metrobus, and MetroAccess), while lesser amounts were designated for debt service and the school subsidy Kids Ride Free program.

The District's combined net position (governmental and business-type activities) decreased by \$255,201, or 3.17%, to \$7,799,311 in fiscal year 2025 from

\$8,054,512 in fiscal year 2024. The decrease was mainly due to a reduction in net position within the governmental activities as a result of the District's implementation of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, during fiscal year 2025. This implementation resulted in a restatement to present the cumulative effect of the change in accounting principle and reduced the District's beginning net position in governmental activities by \$171,328.

Restricted net position represents assets that are subject to use constraints imposed either: (a) externally by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments; or (b) by law, through constitutional provisions or enabling legislation. Restricted net position increased by \$1,340,146, or 59.67%, in fiscal year 2025, mainly due to increases in amounts set aside for expenses related to pension and postemployment health care benefit liabilities, increases in restrictions for debt service payments, and emergency and contingency reserves. The growth in net position related to pension liabilities is directly related to increased contributions made towards the Teachers, Police Officers and Fire Fighters Retirement Plan. The growth in net position for debt service payments and capital projects are driven by the issuance of new general obligation bonds and bonds to support highway projects.

Unrestricted net position decreased by \$1,106,771 to \$586,680, or 65.36%, in fiscal year 2025. The decrease is mostly due to overall expenses exceeding revenues for the fiscal year. Additionally, growth in restricted net position contributed to the decline, as resources were reallocated between net position categories.

The Office of Lottery and Gaming (the Lottery), a proprietary fund of the primary government, transfers substantially all of its net income to the District at the end of each fiscal year. In fiscal year 2025, the Lottery transferred \$32,500 to the District's General Fund.

The Not-for-Profit Hospital Corporation received a transfer of \$26,000 from the primary government for operating purposes during the fiscal year. The Corporation transferred capital assets with a carrying value of \$26,242 to the primary government's governmental activities upon its closure.

Chart MDA-1 graphically depicts the District’s sources of revenues in its governmental activities.

Chart MDA-1
Revenues by Source: Governmental Activities (\$000s)

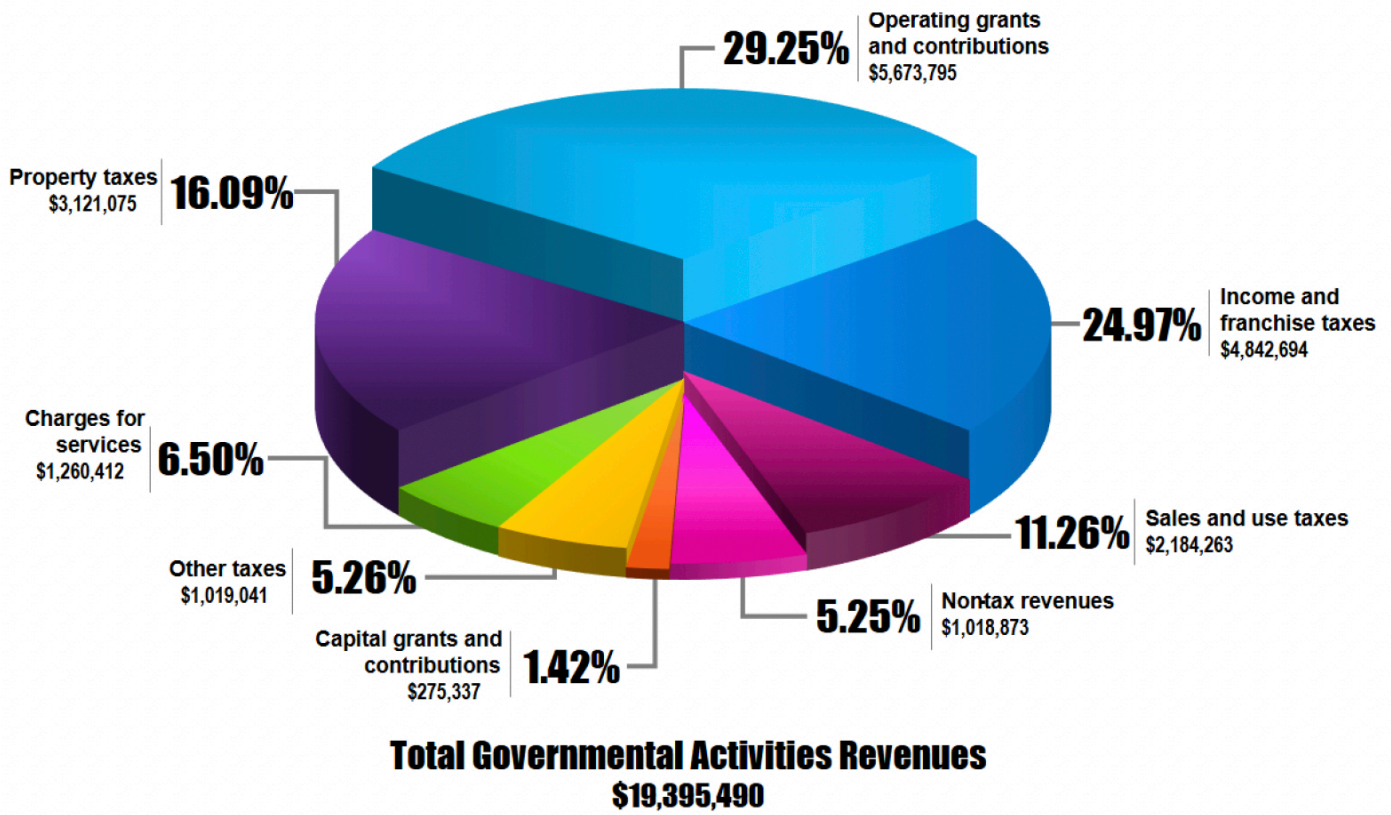
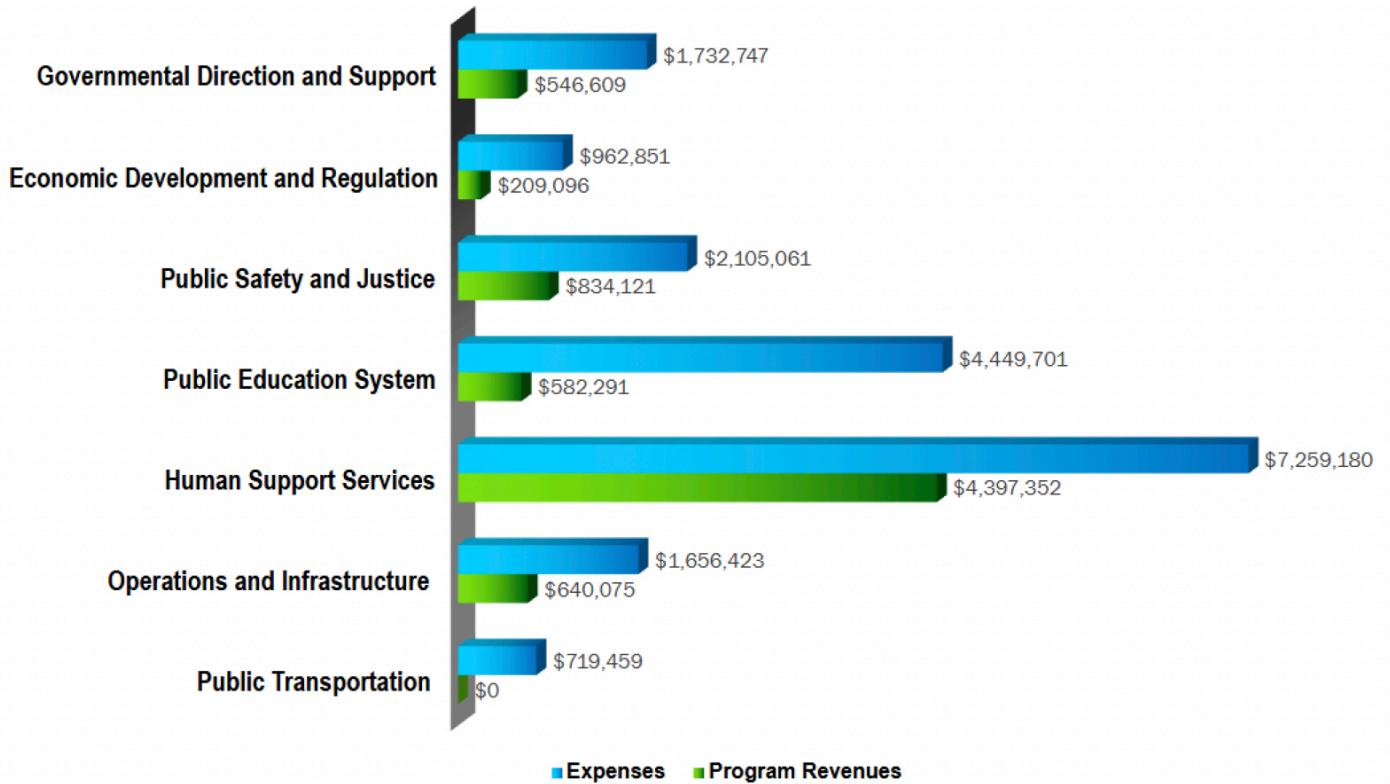


Chart MDA-2 graphically displays both expenses and program revenues of the governmental activities for fiscal year 2025. Functional areas of the governmental activities are Governmental Direction and Support, Economic Development and Regulation, Public Safety and Justice, Public Education System, Human Support Services, Operations and Infrastructure, and Public Transportation.

**Chart MDA-2
Governmental Activities Expenses and Program Revenues (\$000s)**



Changes in Net Position

Total net position of governmental activities was \$7,457,394 in fiscal year 2025, which was \$182,866, or 2.39%, lower than the amount in the prior year. This decrease was driven by the implementation of a new accounting standard for compensated absences and by expenses exceeding revenues during the fiscal year. During fiscal year 2025, total revenues in the governmental activities increased by \$869,371 or 4.69% to \$19,395,489. Revenues increased in all categories with the exception of operating grants and contributions, which decreased significantly by \$530,897. The decline in grants and contributions was due to the expiration of federal Coronavirus relief funding and financial resources provided under ARPA and other federal support. While these sources were available in the prior year, that was no longer the case in fiscal year 2025. Total expenses in the governmental activities also increased by \$526,575 or 2.78% to \$19,439,770. The most significant increases were in Public Transportation, Human Support Services, and Economic Development and Regulation. Public Transportation expenses grew mainly as a result of additional costs to meet the mandated WMATA subsidies. Human Support Services expenses increased due to increased payments to Medicaid MCOs using dedicated taxes, a new source of funding for such payments. Economic Development and Regulation expenses increased as a result of the first disbursements of voucher funding under the Local Rent Supplement Program being made, expenditure of Reentry Housing grant funding, and increased spending associated with the Streets for People Program and the Home Purchase Assistance Program.

Net position of business-type activities decreased by \$72,335, or 17.46%, between fiscal year 2025 and 2024. The decrease in overall net position was mainly attributed to a decrease in net position of \$47,075 from the Not-For-Profit Hospital Corporation, which was driven by a steep reduction in revenues due to the cessation of patient intake in April 2025 and the permanent closure of the Corporation on September 30, 2025.

Net position for the Office of Lottery and Gaming increased by \$500, or 10.04%, from the prior year. The

increase was mainly due to the implementation of a new accounting standard which changed the accounting for compensated absences. Prizes paid and other related expenses experienced a significant decrease of 44.10%; similarly, operating revenues decreased by \$117,750 or 35.84%, both due to a shift away from, and consequently, a decline in sports wagering sales. The Lottery's change in net position was \$13 for fiscal year 2025, after transferring \$32,500 to the General Fund of the District.

The Unemployment Compensation Fund net position decreased by \$25,760, or 7.19%. This decrease was driven by benefit payments exceeding operating revenues during the fiscal year.

Reporting on the District's Most Significant Funds

Fund financial statements focus on major funds, instead of fund types. Other than the General Fund, which is always classified as a major fund, any other governmental or proprietary fund is classified as a major fund if the fund has revenues, expenditures/expenses, assets plus deferred outflows of resources, or liabilities plus deferred inflows of resources that are at least 10% of the corresponding totals for all governmental or proprietary funds, and at least 5% of the aggregate amount for all governmental and proprietary funds for the same item. Major funds, as required by GAAP, are presented individually while nonmajor funds are combined in a single column. Detailed information for individual nonmajor governmental funds can be found in Other Supplementary Information, Exhibits B-1 and B-2, presented on pages 180 and 181.

Governmental Funds

Governmental Funds provide information that is useful when assessing the financing needs of the District, such as data pertaining to near-term inflows, outflows, and balances of spendable resources. Most basic services are reported in the governmental funds, which are further classified as General, Federal and Private Resources, Housing Production Trust, General Capital Improvements, and Nonmajor Governmental Funds. Exhibits 2-a and 2-b, presented on pages 58 and 59, provide information about these funds.

Fund Balances

The governmental funds reported a total fund balance of \$4,718,889 in fiscal year 2025 and \$4,513,160 in fiscal year 2024, which represents an increase of \$205,729, or 4.56%, from the prior year.

Table MDA-4 presents the components of fund balances for the governmental funds.

**Table MDA-4
Fund Balances: Governmental Funds (\$000s)**

Governmental funds	2025	2024	Variance	Variance %
General	\$ 4,825,267	\$ 4,922,962	\$ (97,695)	(1.98)%
Federal and private resources	(422,585)	(421,721)	(864)	(0.20)
Housing production trust	325,805	483,805	(158,000)	(32.66)
General capital improvements	(341,564)	(980,374)	638,810	65.16
Nonmajor governmental funds	331,966	508,488	(176,522)	(34.72)
Total fund balances	\$ 4,718,889	\$ 4,513,160	\$ 205,729	4.56

The negative fund balance in the Federal and Private Resources Fund increased minimally by \$864, or 0.20%, between fiscal years 2025 and 2024.

During fiscal year 2025, expenditures of the Federal and Private Resources Fund increased by \$108,684, or 1.84%, over the one-year period while revenues decreased more sharply by \$475,998, or 7.54%, primarily due to a \$484,663 reduction in federal contributions. Despite the decline in revenues and expenditures, the fiscal year ended with only a minimal deficit of revenues over expenditures. The fund transferred \$47,710 to the General Fund for loss revenue replacement from ARPA resources and reimbursement for FEMA expenditures that were spent from the General Fund in fiscal year 2024.

Fund balance in the Housing Production Trust Fund decreased by \$158,000, or 32.66% between fiscal years 2025 and 2024. The overall decrease was primarily due to significantly higher expenditures over revenues in fiscal year 2025. Expenditures increased year-over-year as a result of an increased number of stabilization grants being awarded and disbursed. These grants were awarded in light of the ongoing stress in the affordable housing sector due to nonpayment of rents. Other measures taken to support affordable housing included making five loans for new construction and one for substantial rehabilitation available to the public.

The most significant change in the governmental fund balance occurred in the General Capital Improvements Fund, which reported a negative fund balance of \$341,564 as of September 30, 2025. This substantial

decrease in the fund balance deficit of \$638,810, or 65.16%, over the prior year’s negative fund balance of \$980,374, was a consequence of the District issuing more bonds in fiscal year 2025 to cover the expenditures for this Fund. The remaining shortfall was covered by advances from the General Fund.

Fund balance in the Nonmajor Governmental Funds decreased by \$176,522 or 34.72% between fiscal years 2025 and 2024. The overall decrease was primarily due to fund balance decreases in special revenue funds for the PILOT Fund, Baseball Project Fund, and the Tax Increment Financing Program. The large decrease in fund balance for the PILOT Fund was due to significantly higher debt service payments even as tax collections increased by 45.81% in fiscal year 2025. However, the decrease in fund balance for the Baseball Project Fund was due to the transfer of funds to the General Fund and the Debt Service Fund to support baseball project debt service payments. Similarly, the decrease in fund balance for the Tax Increment Financing Program was primarily due to revenues in excess of debt service requirements being transferred to the General Fund. These decreases in fund balance, however, outweighed the minor changes in fund balance from the remaining Nonmajor Governmental Funds.

Fund balance in the General Fund, which is the primary operating fund of the District, decreased by \$97,695, or 1.98% over the one-year period. A detailed discussion of the District’s General Fund follows.

Revenues

General Fund revenues totaled \$12,756,235, which represents an increase of \$1,157,823, or 9.98%, in fiscal year 2025. **Table MDA-5** presents the significant changes in General Fund revenues.

**Table MDA-5
Changes in Major General Fund Revenues (\$000s)**

Revenue category	2025	2024	Variance	Variance %
Property taxes	\$ 3,042,819	\$ 3,052,685	\$ (9,866)	(0.32)%
Sales and use taxes	2,125,636	2,017,380	108,256	5.37
Income and franchise taxes	4,840,361	4,271,954	568,407	13.31
Gross receipts taxes	506,903	364,393	142,510	39.11
Other taxes	395,578	327,815	67,763	20.67
Total	\$ 10,911,297	\$ 10,034,227	\$ 877,070	8.74

Property Taxes

The decline in property tax revenue for fiscal year 2025, compared to fiscal year 2024, was driven by a combination of factors. Lower real property tax collections were attributable primarily to reduced revenues from commercial (Class 2) properties, particularly office buildings. This decrease resulted from downward revisions to assessed values, reflecting sustained weakness in office space demand from both federal agencies and private-sector tenants. In contrast, personal property tax revenue increased, driven by continued investment in higher-value taxable assets—especially information technology equipment—as well as inflationary impacts on asset valuations. Public space rental fee collections declined due to reduced utilization of public areas for private activities, including outdoor dining and special events, relative to fiscal year 2024.

Sales and Use Taxes

Sales tax revenue growth in fiscal year 2025 was primarily attributable to increases in the retail component of the general sales tax, supported by higher consumer incomes and ongoing inflationary pressures. In addition, receipts from food and beverage establishments, hotels and short-term lodging, and parking exceeded fiscal year 2024 levels, reflecting continued economic recovery, particularly during the first half of the fiscal year.

Income and Franchise Taxes

Approximately 60 percent of the growth in individual income tax revenue in fiscal year 2025 was attributable to non-wage (non-withholding) income, which benefited from the strong performance of the stock market. The withholding component also increased, reflecting gains in resident employment—particularly within the health care, education, and hospitality sectors—as well as rising wages among higher-income residents. In addition, corporation franchise tax revenue grew due to higher business profitability, led by the technology sector, which continues to benefit from significant capital investment in artificial intelligence.

Gross Receipts Taxes

The primary driver of growth in gross receipts tax revenue in fiscal year 2025 was the implementation of a new hospital fee applied to inpatient net revenue and gross outpatient revenue, as adopted in the District’s fiscal year 2025 budget. In addition, private sports wagering revenue increased following the expansion of mobile sports betting, which was supported by the authorization of additional commercial vendors in the District.

Other Taxes

The increase in deed tax revenue—including recordation, transfer, and economic interest taxes—was primarily driven by a higher volume of property transfers and financing transactions processed throughout the year. Residential transactions accounted for approximately two-thirds of the revenue growth, reflecting activity across both single-family and multifamily properties. Commercial transactions contributed the remaining one-third of the increase, with growth observed across all property types except large office transactions.

Dedicated Tax Revenues

The dedicated portions of tax revenues related to the special revenue funds are recorded directly in those funds. However, dedicated taxes for the Washington Convention and Sports Authority and the Highway Trust Fund are transferred out of the local fund. Healthcare Program activities are recorded in a segregated fund within the General Fund. In fiscal year 2025, the District dedicated a total of \$914,935 in tax revenues, which was 13.35% higher compared to the prior year, to fund the projects presented in **Table MDA-6**. The highest increase was reported in revenues from taxes dedicated to the Healthcare programs. The dedicated revenues significantly increased due to a new funding mechanism which increased dedicated tax collections. For fiscal year 2025, the Department of Health Care Finance (DHCF) was authorized

to collect dedicated taxes from hospitals in order to make separate payments to Medicaid Managed Care Organizations (MCOs) which would use that revenue to make State Directed Payments (SDPs) up to the Average Commercial Rate (ACR). During fiscal year 2025, taxes dedicated to the Healthcare programs increased by \$124,923, or 307.00%, compared to fiscal year 2024.

The increase was partially offset by a decrease in revenues from taxes dedicated to the PILOT special revenue fund. During fiscal year 2025, taxes dedicated to this fund declined by \$27,796, or 45.81%, compared to fiscal year 2024. This decrease was primarily attributable to the full redemption of the Southwest Waterfront (The Wharf) bonds during fiscal year 2025.

**Table MDA-6
Dedicated Tax Revenues (\$000s)**

	Property	Sales and Use	Gross Receipts	Deed Recordation	Deed Transfers	Motor Fuel	Other	Total Taxes
General fund								
Washington Convention and Sports Authority	\$ -	\$ 205,536	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,536
Department of General Services	-	-	-	177	177	-	-	354
Walter Reed Development Fund	810	148	-	-	-	-	-	958
Healthcare programs	-	-	-	-	-	-	165,614	165,614
Highway Trust Fund	-	-	-	-	-	31,085	-	31,085
WMATA	-	255,261	-	-	-	-	-	255,261
Arts and Humanities	-	43,905	-	-	-	-	-	43,905
HPTF debt service	-	-	-	2,247	-	-	-	2,247
Total general fund	810	504,850	-	2,424	177	31,085	165,614	704,960
Special revenue funds								
Tax increment financing program	15,371	26,038	-	-	-	-	-	41,409
PILOT special revenue	19,417	13,463	-	-	-	-	-	32,880
Baseball project	-	19,125	56,748	-	-	-	-	75,873
Housing Production Trust	-	-	-	29,420	26,389	-	4,004	59,813
Total special revenue funds	34,788	58,626	56,748	29,420	26,389	-	4,004	209,975
Total dedicated taxes	\$ 35,598	\$ 563,476	\$ 56,748	\$ 31,844	\$ 26,566	\$ 31,085	\$ 169,618	\$ 914,935

Expenditures

The District’s General Fund expenditures, excluding debt service, increased by \$629,704 from the previous year.

Table MDA-7 presents General Fund expenditure variances by function.

**Table MDA-7
General Fund Expenditure Variances by Function (\$000s)**

Function	2025	2024	Variance	Variance %
Governmental direction and support	\$ 1,545,706	\$ 1,702,059	\$ (156,353)	(9.19)%
Economic development and regulation	440,248	474,019	(33,771)	(7.12)
Public safety and justice	1,679,668	1,513,937	165,731	10.95
Public education system	3,713,348	3,424,203	289,145	8.44
Human support services	2,899,692	2,733,861	165,831	6.07
Operations and infrastructure	745,370	759,246	(13,876)	(1.83)
Public transportation	719,459	506,462	212,997	42.06
Total functional expenditures	\$ 11,743,491	\$ 11,113,787	\$ 629,704	5.67

Explanations for variances between fiscal years 2025 and 2024 in General Fund functional expenditures follow:

Governmental Direction and Support

The overall decrease in Governmental Direction and Support expenditures in fiscal year 2025 was due to several contributing factors, including a decrease in lease expenditures that was recorded in the current fiscal year compared to fiscal year 2024. This decrease was primarily attributable to reduced lease-related activities during the year under the city’s Rental program which is administered by the Department of General Services. Lower expenditures were also due to a significant decrease of approximately \$28.80 million in the cost of energy, achieved in large part, through a memorandum of agreement with the Department of Energy and Environment (DOEE). This agreement allowed DOEE to absorb approximately \$30.10 million of electricity cost which in fiscal year 2024 was paid by the Department of General Services under the Centrally Managed Energy program. Expenditures also decreased due to a mid-year budget freeze which prevented the filling of vacant positions in several agencies, and a general reduction in spending on personnel services, such as for the Eastern Market Fund, and certain non-personnel services, including occupancy and contractual services associated with the Facilities Management program. In fiscal year 2024, GenTax—a modified integrated tax system for the Office of Tax and Revenue—was implemented which contributed to an increase in subscription-based information technology arrangement (SBITA) expenditures of approximately \$13.00 million; a similarly large expenditure did not occur during fiscal year 2025. Likewise, expenditures incurred during

fiscal year 2024, in preparation for the General Election that was held in November 2024, did not occur during fiscal year 2025. Consequently, overall costs which are typically incurred to facilitate fair elections as a part of the Fair Elections program in the District, as well as costs incurred for the response to first amendment activities, decreased in fiscal year 2025.

The following factors offset the overall decrease in Governmental Direction and Support expenditures during fiscal year 2025:

- Increased spending under the new Energy Surcharge Trust Fund for electricity costs;
- Increased non-personnel spending on operating expenditures, including telecommunications, utility costs and security services;
- Increased costs and benefit payments to support impacted residents due to a higher unemployment rate in the District, compared to the prior year;
- Significantly higher expenditures in fiscal year 2025 to settle claims and lawsuits and pay judgments in various civil cases filed against the District;
- Higher expenditures for software maintenance costs and new federal government contract-related expenditures; and
- Increases in expenditures over several programs, including the Asset Management Program, the Facilities Management Program, and the Protective Services Program.

Economic Development and Regulation

The decrease in Economic Development and Regulation expenditures during fiscal year 2025 was primarily driven by the absence of one-time funding available in the prior fiscal year that supported the creation and preservation of affordable housing for low- and extremely low-income families in the District, including mortgage assistance under the Homeowner Assistance Fund. Similarly, there was also less spending on business development and in the Special Events Relief Fund due to a reduction in funding for those projects during fiscal year 2025. Additional contributing factors to the decrease in Economic Development and Regulation expenditures were reductions in state small business credit initiative spending under the DC Business Capital Program (DC BizCAP) and in one-time local funding to support individual Business Improvement District (BID) projects. Further, an overall reduction in spending due to the Mayor's spending freeze in 2025 significantly impacted personnel services and non-personnel services cost during the latter half of the fiscal year. However, the decrease in expenditures was partially offset by:

- Increased spending on community planning and design to support the Streets for People program, a community-driven initiative that focuses on investing in infrastructure for streets, sidewalks, and alleys to encourage civic engagement and enjoyment of local amenities in the District;
- The first disbursements of voucher funding under the Local Rent Supplement Program and expenditures of Reentry Housing grant funding;
- Increased expenditures in the Small Buildings Program;
- Increased disbursement of Preservation grants to local community development financial institutions over the prior fiscal year; and
- A significant local budget increase in fiscal year 2025 for the Home Purchase Assistance Program.

Public Safety and Justice

Public Safety and Justice expenditures increased overall, primarily due to higher District contributions for eligible retirees under the Police Officers and Fire Fighters Retirement Plan, as determined by the results of an actuarial study. Inauguration expenditures, which occur every four years, were also incurred during fiscal year 2025; there were no such expenditures in the prior year. Increased overtime costs related to expanded policing activities in the District in response to the crime emergency declared by the US President also contributed to the increase in Public Safety and Justice expenditures. The Fire and Emergency Medical Services Department, which provides emergency medical services, fire suppression, and homeland security and special operations response for the District, also incurred higher costs over the prior year. For instance, costs were incurred to respond to the mid-air collision emergency event that occurred in January 2025. Less significant cost increases were as follows:

- A rise in maintenance and security costs and tuition assistance for the DC National Guard; and
- Higher inmate care costs due to an increase in the average daily population of inmates.

A combination of at least two factors helped to offset the overall increase in Public Safety and Justice expenditures:

- Decreased spending due to the expiration of funding under the American Rescue Plan Act (ARPA) which had been available in the prior year; and
- Spending restrictions imposed by the District in fiscal year 2025.

Public Education System

Public Education System expenditures rose in fiscal year 2025 largely due to an increase in the Uniform Per Student Funding Formula rate and the facilities allocation. Expenditures also increased as a result of backpay to union staff members and an increase in wages for educators under the Washington Teachers' Union contract which was fully executed in fiscal year 2025. Increased expenditures were also incurred for private bus companies to transport eligible children to school; costs associated with the Parent Stipend program, which is designed to support parents and guardians who choose to self-transport their students to and from school; and costs incurred to provide funding, oversight, and leadership for required special education and related services for children with disabilities who attend special education schools and programs under the federal Individuals with Disabilities Education Act (IDEA). The overall increase in expenditures was offset by lower expenditures related to the following:

- Support teacher apprenticeship planning;
- Statewide assessment and data collection;
- Support of grants and programs, including the Early Literacy Grant, the Flexible Scheduling Pilot Program Grant, and the Pre K Enhancement and Expansion Program; and
- District budget constraints and limitations on spending on personnel and non-personnel services.

Human Support Services

The District, through Human Support Services agencies, provides an array of services to sustain, support, and assist the most vulnerable residents in the District. Programs include, but are not limited to, Medicaid, Behavioral Health Services, Temporary Assistance for Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP), Homeless Services, Adoption and Foster Care services, recreational programming, care for youth in pre- and post-court adjudication, and mental health services provided by Saint Elizabeths Hospital and other community-based providers. The increase in expenditures in Human Support Services was primarily due to a new funding mechanism which increased dedicated tax collections, and consequently increased spending. For fiscal year 2025, the Department of Health Care Finance (DHCF) was authorized to collect dedicated taxes from hospitals in order to make separate payments to Medicaid Managed Care Organizations (MCOs) which would use that revenue to make State Directed

Payments (SDPs) up to the Average Commercial Rate (ACR). Implementation of this process required two approvals from the Centers for Medicare & Medicaid Services (CMS), one for the taxes and the other for the SDPs. CMS approved the tax waiver in June 2025 and the SDPs in September 2025. Although both were retroactively effective to October 1, 2024, the SDP approval was too late to collect the taxes and make the payments before the end of fiscal year 2025. Since the approvals were retroactive to the beginning of the fiscal year, DHCF accrued the full amount of the dedicated tax payments. The increased expenditures is directly associated with the increase in dedicated tax collections.

Additional increases in expenditures are also attributed to the DC Provider Fee Fund, which supports the District match for Medicaid fee-for-service hospital reimbursements. Conversely, decreases in Human Support Services expenditures were driven by a reduction in revenue collected, including revenues that support Pharmacy Protection and programs related to communicable and chronic disease. In addition, in fiscal year 2025, revenues derived from licensing fees and civil fines relating to the practice of health occupations in the District declined. This reduction in available revenues further contributed to the overall decrease in Human Support Services spending when compared to the prior year.

Operations and Infrastructure

Overall, expenditures for Operations and Infrastructure decreased slightly during fiscal year 2025 primarily due to a reduction in ARPA local funds which ended in fiscal year 2024. Related levels of similar spending did not occur during fiscal year 2025. In addition, expenditures decreased year over year as a result of reduction in revenues collected which are used to support transportation and related expenditures. The decrease in expenditures for Operations and Infrastructure was offset, however, by additional expenditures incurred in fiscal year 2025 from an interagency memorandum of understanding with the Department of General Services for electricity costs for District buildings.

Public Transportation

The District, along with other jurisdictions in the metropolitan region, provides funding to support the operations of the Washington Metropolitan Area Transit Authority (WMATA). The overall transfers to WMATA from the District in fiscal year 2025 were higher than in previous years due to annual inflationary increases.

Capital Expenditures and Financing

During fiscal year 2025, the District spent \$2,139,710 on general capital improvements which exceeded the general capital improvements revenues of \$278,362 by \$1,861,348. This deficiency was financed with a net total of \$2,500,158 from bond proceeds and other financing sources. The net change in fund balance was an increase of \$638,810, which resulted in a cumulative negative fund balance of \$341,564.

The District’s investments in capital improvements are based on need rather than available current year resources. It is the District’s financial policy to issue bonds to support capital project expenditures under the District’s capital improvements plan. In order to minimize the cost of carrying debt, the District has instituted the practice of issuing bonds based on actual expenditures, in some cases, and on the annual amount budgeted. However, agencies are authorized to spend their annual appropriated capital budget in advance of financing. The General Fund advances the amount of the funding and is repaid with the proceeds from the bonds when issued. This allows the District to determine when it will enter the market to issue bonds based upon cash flow needs, favorable market rates,

the total amount of municipal debt financing, and the types of credits that are available. This flexibility helps to minimize borrowing costs and maximize the pool of potential investors for the District’s debt issuances.

Housing Production Trust Fund

At the end of fiscal year 2025, the gross Housing Production Trust Fund (HPTF) long-term loans receivable balance was \$1,656,124, an increase of \$166,273, or 11.16% from the balance at the end of the prior fiscal year. Repayment of most of the HPTF loans has been deferred for extended periods of time in accordance with the associated loan agreements, in some instances up to 40 years. Deferring the repayment for that many years in the future makes it difficult to assess and reasonably estimate the collectability and net realizable value of the loans. For this reason, 100% of the deferred portion of the HPTF loans is reserved as potentially unrealizable. The gross balance of long-term loans receivable is reported net of the related allowance for doubtful accounts as other long-term assets. As of September 30, 2025, the net balance was \$55,957.

Table MDA-8 presents the Housing Production Trust Fund long-term loan receivable balances and the corresponding allowance for doubtful accounts for fiscal years 2021 through 2025.

**Table MDA-8
Housing Production Trust Fund Long-Term Loan Receivable Balances (\$000s)**

	2021	2022	2023	2024	2025
HPTF long-term loans receivable	\$ 1,055,668	\$ 1,161,151	\$ 1,305,592	\$ 1,489,851	\$ 1,656,124
Less: allowance for doubtful accounts	964,025	1,097,349	1,245,304	1,432,416	1,600,167
Net long-term loans receivable (other long-term assets)	\$ 91,643	\$ 63,802	\$ 60,288	\$ 57,435	\$ 55,957

Proprietary Funds

The District has three Proprietary Funds: the Office of Lottery and Gaming (the Lottery), the Unemployment Compensation Fund, and the Not-for-Profit Hospital Corporation.

The operating revenues of the Lottery decreased by \$117,750 or 35.84%, compared to the prior year, primarily due to a decrease in sports wagering sales as in fiscal year 2025, wagering was limited to retail locations only. Also, operating expenses decreased by \$110,454 or 38.09% from the prior year primarily due to reduced sports wagering activities and consequently, lower prize payouts.

During fiscal year 2025, the operating revenues of the Unemployment Compensation Fund increased by \$30,877, or 23.79%, primarily due to increases in employer taxes and federal contributions, which rose as a result of policy decisions made that affected former civilian federal employees. In addition, operating expenses had a considerable increase of \$88,410, or 79.86%. This growth was due to an increase in the

unemployment rate within the District, when compared to the prior fiscal year. Due to a higher number of unemployed workers in fiscal year 2025, a greater number of claims were filed in that year.

The operating revenues of the Not-for-Profit Hospital Corporation notably decreased by \$69,706 or 74.39% as operating expenses also decreased by \$52,992 or 42.80%. The Corporation’s operating revenues and expenses represent seven months of activity as the Corporation was closed for patient operations in April 2025 and was dissolved on September 30, 2025.

Total net position of the District’s proprietary funds decreased by \$72,335, or 17.46%, over the prior year. The financial statements of the proprietary funds are presented in Exhibits 3-a, 3-b, and 3-c on pages 63 through 65.

Charts MDA-3 and MDA-4 graphically present comparisons of revenues and expenses of District proprietary funds for the fiscal year ended September 30, 2025 based on information contained in the Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds, shown on page 64.

Chart MDA-3
Operating Revenues and Expenses: Business-Type Activities (\$000s)

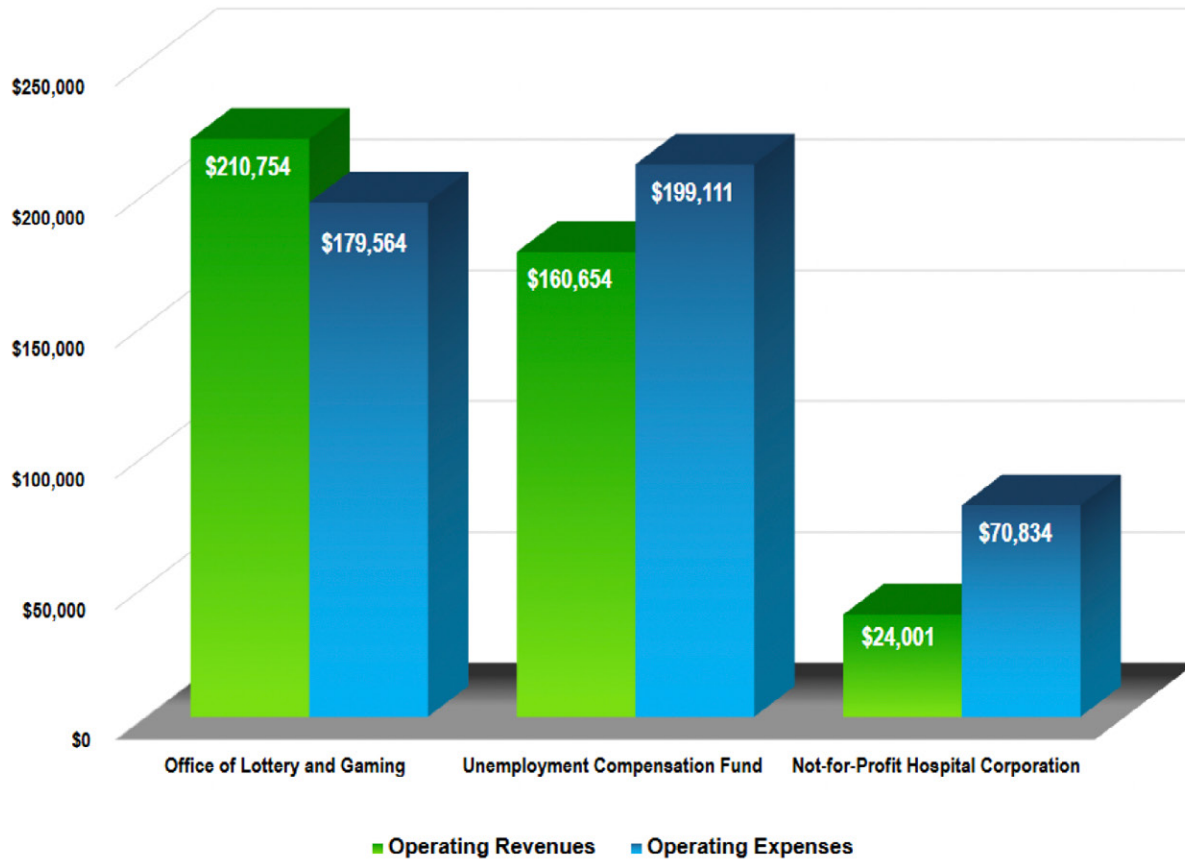
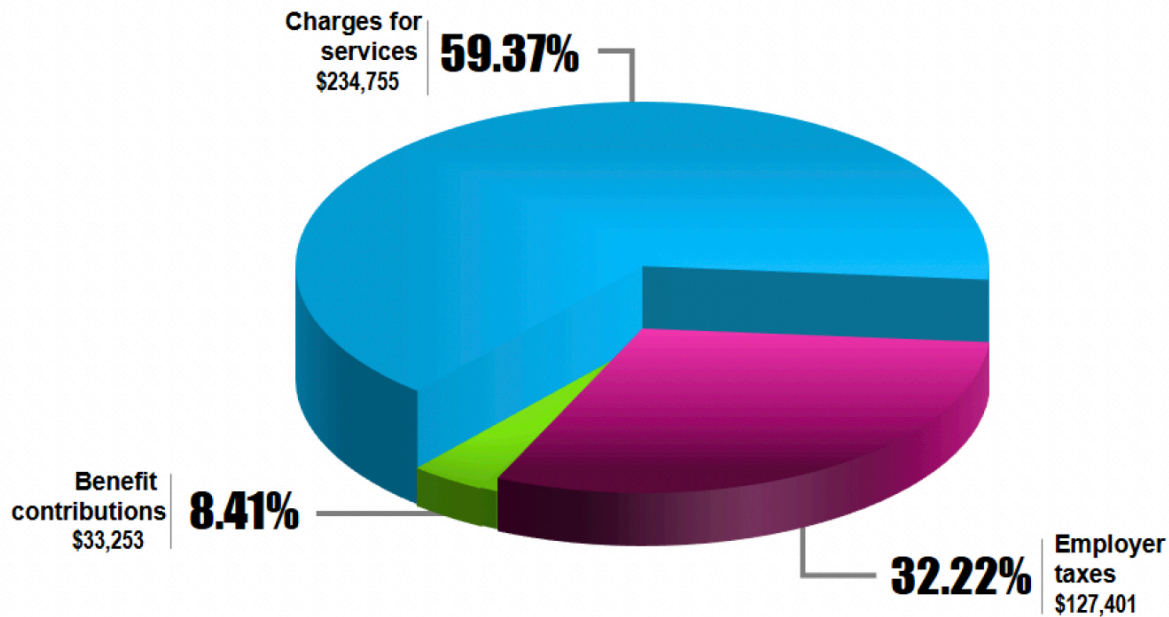


Chart MDA-4
Operating Revenues by Source: Business-Type Activities (\$000s)



Total Business-Type Activities: Operating Revenues
\$ 395,409

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. The District is the trustee or has the fiduciary responsibility for ensuring that these assets are used for their intended purposes. The District maintains three fiduciary fund types: the Pension (and Other Employee Benefit) Trust Funds, a Private-Purpose Trust Fund, and a Custodial Fund. The net position for the most significant fiduciary fund, the Pension (and Other Employee Benefit) Trust Funds, is outlined in the table below. All fiduciary

activities are reported in Exhibit 4-a, Statement of Fiduciary Net Position, and Exhibit 4-b, Statement of Changes in Fiduciary Net Position on pages 66 and 67, respectively. Exhibits C-1 and C-2, on pages 184 and 185, respectively, provide additional information related to the fiduciary activities. These activities are excluded from the District’s governmental and business-type activities because resources of fiduciary funds are restricted and are not available to support District operations.

Table MDA-9 presents the net position restricted for Pension (and Other Employee Benefit) Trust Funds.

Table MDA-9
Net Position Restricted for Pension and Other Employee Benefit Trust Funds (\$000s)

	2025	2024	Variance	Variance %
Pension (and Other Employee Benefit) Trust Funds				
Police officers and fire fighters pension	\$ 9,710,683	\$ 8,877,390	\$ 833,293	9.39%
Teachers pension	3,753,242	3,386,616	366,626	10.83
Other postemployment benefits	2,532,242	2,285,178	247,064	10.81
401(a) Defined Contribution Plan	2,014,299	1,787,448	226,851	12.69
457(b) Deferred Compensation Plan	1,904,012	1,669,481	234,531	14.05
403(b) Tax-Sheltered Annuity Plan	459,878	424,984	34,894	8.21
Total	\$ 20,374,356	\$ 18,431,097	\$ 1,943,259	10.54

Net position of the Pension and Other Employee Benefit Trust Funds increased mainly because of the considerably larger additions, primarily from investment earnings, over deductions in the fiscal year.

The next significant fiduciary fund type is the Private-Purpose Trust Fund. This Fund is used to report any trust arrangement not reported in the Pension or Other Employee Benefit Trust Funds under which principal and income benefit specific individuals, private organizations, or other governments. The District's 529 College Savings Investment Plan, which is designed to help families save for the higher education expenses of designated beneficiaries, comprises the Private-Purpose Trust Fund. For fiscal year 2025, the net position of the Private-Purpose Trust Fund was \$1,641,493, which represents an increase of \$225,337, or 15.91% from the prior fiscal year.

Component Units

Discretely presented component units are legally separate organizations that meet the following criteria: (a) the District appoints a voting majority of the entity's governing board and (b) there is a financial benefit/burden relationship between the District and the entity, or the District is able to impose its will on the entity, or (c) the District holds majority equity interest, which does not meet the definition of investment in the entity. Consistent with these criteria, the District reports five discretely presented component units: (1) Health Benefit Exchange Authority, (2) Washington Convention and Sports Authority (t/a Events DC), (3) District of Columbia Green Finance Authority, (4) Housing Finance Agency, and (5) University of the District of Columbia.

Other component units have operations that are so intertwined with those of the primary government that they function, for all practical purposes, as an integral part of the primary government. These are reported as blended component units. A component unit should be blended when the primary government and the component unit share a common governing body and (a) there is a financial benefit or burden relationship between the primary government and the entity, or (b) the primary government has operational responsibility for the entity. In addition, blending is required when the component unit meets any one of the following criteria:

(a) the entity provides service entirely or almost entirely to the primary government; or otherwise exclusively or almost exclusively benefits the primary government, although it does not provide services directly to it; (b) the entity's total debt outstanding is expected to be repaid entirely or almost entirely with the primary government's resources; or (c) the organization is a not-for-profit corporation, in which the primary government is the sole corporate member.

The District reports two blended component units: (1) the Tobacco Settlement Financing Corporation (Tobacco Corporation) and (2) the Not-for-Profit Hospital Corporation (d/b/a United Medical Center). The Tobacco Corporation is a blended component unit because: (a) the District appoints the Tobacco Corporation's board; (b) the District is legally entitled to and can otherwise access the Tobacco Corporation's resources, which constitutes a benefit/burden relationship; and (c) the District has the ability to modify or approve the Tobacco Corporation's budget, which gives the District the ability to impose its will on the Tobacco Corporation. In addition, the Tobacco Corporation provides services entirely to the District. Historically, the Not-for-Profit Hospital Corporation has been reported as a blended component unit because: (a) there was a financial benefit/burden relationship between the District and the Not-for-Profit Hospital Corporation because the District assumed the obligation to provide financial support to the Not-for-Profit Hospital Corporation to help sustain its operations; (b) the District was able to impose its will on the Not-for-Profit Hospital Corporation because the District had the ability to modify or approve the Not-for-Profit Hospital Corporation's budget; and (c) it was organized as a not-for-profit corporation, in which the District is the sole corporate owner. The Not-for-Profit Hospital Corporation was dissolved on September 30, 2025.

Each of the District's component units prepares its own independently audited financial statements, which are accompanied by their respective Management's Discussion and Analysis. Exhibits 5-a and 5-b, on pages 68 and 69, respectively, present the discretely presented component units' financial information for fiscal year 2025. Information presented in these exhibits was extracted from each entity's separately issued financial statements.

Long-term Debt

The District is empowered by law (Section 461 of the District of Columbia Home Rule Act, as amended) to issue General Obligation Bonds for the payment of the costs of acquiring capital assets or undertaking various capital projects and to refund indebtedness of the District. The District also issues Income Tax Secured Revenue Bonds pursuant to the Income Tax Secured Bond Authorization Act of 2008 (DC Code § 47-340.26 et seq.). The payment of principal and interest on these bonds comes solely from the associated trust estate and the available pledged tax revenues. The Income Tax Secured Revenue Bonds are without recourse to the District, and are not a pledge of, and do not involve the full faith and credit or the taxing power of the District.

The District also issues, on a less frequent basis, other types of long-term debt, including Tax Increment Financing (TIF) Bonds, Housing Production Trust Fund (HPTF) Bonds, and other revenue bonds.

As of September 30, 2025, the District (including its business-type activities) had \$18,386,368 in long-term liabilities, of which \$13,586,230, or 73.89%, was in the form of bonds and notes. Of the outstanding bonds and notes, \$6,398,855, or 47.10%, were General Obligation Bonds, and \$6,348,850, or 46.73%, were Income Tax Secured Revenue Bonds.

Table MDA-10 presents the outstanding bonds and notes of the District as of September 30, 2025.

**Table MDA-10
Outstanding Bonds and Notes as of September 30, 2025 (\$000s)**

	2025	2024	Variance	Variance %
Type of bonds and notes				
General obligation bonds - publicly offered	\$ 5,717,445	\$ 4,851,625	\$ 865,820	17.85%
General obligation bonds - direct placements	681,410	739,165	(57,755)	(7.81)
Income tax secured revenue bonds	6,348,850	5,874,740	474,110	8.07
Other bonds:				
Qualified zone academy bonds (QZAB) - direct placements	-	276	(276)	(100.00)
Tobacco settlement asset-backed bonds	380,509	405,339	(24,830)	(6.13)
Tax increment financing bonds - publicly offered	49,955	54,890	(4,935)	(8.99)
Tax increment financing bonds - direct placements	90,091	90,708	(617)	(0.68)
Ballpark revenue bonds	70,555	136,665	(66,110)	(48.37)
Federal highway grant anticipation revenue bonds (GARVEE)	219,495	235,970	(16,475)	(6.98)
Deed tax revenue bonds (housing production trust fund program)	27,920	29,110	(1,190)	(4.09)
PILOT revenue bonds - publicly offered	-	121,940	(121,940)	(100.00)
PILOT revenue bonds and notes - direct placements	-	12,772	(12,772)	(100.00)
Total outstanding bonds and notes - governmental activities	\$ 13,586,230	\$ 12,553,200	\$ 1,033,030	8.23

The District, through multiple public offerings, issued a series of General Obligation Bonds and Income Tax Secured Revenue bonds between October 2024 and June 2025. In October 2024, the District issued a total of \$1,588,555 in General Obligation Bonds. Proceeds of the bonds were used to finance capital projects, refinance existing debt, support infrastructure development, and cover the cost of issuance and delivery. The District issued \$683,020 in Series 2024A, \$316,450 in Series 2024B, and \$589,085 in Series 2024C.

In May 2025, the District issued a total of \$1,473,415 of Income Tax Secured Revenue and Refunding Bonds to refund outstanding General Obligation Bonds, Income Tax Secured Revenue Bonds, and pay off Commercial Paper Bond Anticipation Notes. In addition to the

refunding, proceeds were used to cover issuance and delivery costs, and to finance capital projects.

The District issued \$1,172,305 in Series 2025A Income Tax Secured Revenue and Refunding Bonds and issued \$301,110 in Series 2025B Taxable Income Tax Secured Bonds.

In June 2025, through direct placement, the District issued \$348,000 in General Obligation Bonds, Series 2025A as a mandatory tender for purchase of the General Obligation Bonds, Series 2021C. The purchase price of the tendered 2021C Bonds was for the outstanding par amount of the 2021C Bonds plus accrued interest.

Capital Assets

The General Capital Improvements Fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants, and debt. Capital assets include, but are not limited to land, buildings, police and fire equipment, office equipment, park facilities, roads, bridges, and right-to-use leased and subscription assets. In fiscal year 2025, total net capital assets (capital assets less accumulated depreciation and amortization) increased by \$1,003,661, or 5.35%, over the prior year. Total net capital assets increased overall because the District invested resources in the construction of new assets and the rehabilitation of existing infrastructure, such as roads, streets, and bridges.

Most of the increase in total net capital assets over the prior fiscal year was attributed to various functions within the governmental activities of the primary government. Total net capital assets for business-type activities were directly attributable to the Not-for-Profit Hospital Corporation which dissolved on September 30, 2025. Upon dissolution, the Corporation transferred \$26,242 in net capital assets consisting of land and buildings to the District and the remaining capital assets were disposed, hence there was no capital assets balance in business-type activities at the end of the fiscal year. Depreciation and amortization charges in fiscal year 2025 for the governmental activities totaled \$758,991, compared to the prior year amount of \$741,934. Depreciation and amortization charges in fiscal year 2025 for the business-type activities totaled \$7,971 compared to \$10,221 in the prior year.

Table MDA-11 presents information on the net capital assets of the District by class as of September 30, 2025.

**Table MDA-11
Net Capital Assets by Asset Class as of September 30, 2025 (\$000s)**

Asset class	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Land	\$ 1,040,494	\$ 1,013,910	\$ -	\$ 8,100	\$ 1,040,494	\$ 1,022,010
Buildings	9,491,816	8,838,563	-	22,040	9,491,816	8,860,603
Infrastructure	4,152,342	4,340,578	-	-	4,152,342	4,340,578
Right-to-use leased buildings	1,367,088	1,180,659	-	-	1,367,088	1,180,659
Right-to-use leased equipment	10,031	11,393	-	1,112	10,031	12,505
Right-to-use subscription assets	111,739	99,041	-	-	111,739	99,041
Equipment	534,885	562,949	-	2,961	534,885	565,910
Construction in progress	3,064,808	2,688,236	-	-	3,064,808	2,688,236
Total capital assets, net	\$ 19,773,203	\$ 18,735,329	\$ -	\$ 34,213	\$ 19,773,203	\$ 18,769,542

Note:
Additional information on the District’s capital assets is presented in Note 5: Capital Assets, on pages 116 through 120.

REPORTING THE DISTRICT BUDGET

Overview

Home Rule Act §§ 603(c) and (d) require the District to prepare a balanced budget each year. After approval of the adopted budget, the Mayor submits the Federal Portion Budget Request Act to the President of the United States (the President) for submission to Congress for approval. The Local Budget Act is forwarded by the Chairman of the Council to Congress. Congress can: (1) take no action on the Budget Act, in which case it becomes law after 30 Congressional days in the same manner as other District legislation; (2) reject the Budget Act; (3) affirmatively approve the Budget Act with or without Congressional amendments; or (4) adopt an appropriation for the District in the federal appropriations bill, in a continuing resolution, or as a stand-alone piece of legislation, in which case, that action controls.

The Chief Financial Officer is responsible for forecasting revenue for the District government. Each February, the Chief Financial Officer issues the official revenue estimate that is used to develop the District's budget for the next fiscal year. This estimate is revised as the new fiscal year begins and is periodically reviewed and adjusted quarterly to reflect current economic trends and outlook, new legislative mandates, and other similar factors. As the revenue estimates are revised, the District's expenditure budget may also be revised to be consistent with the updated revenue estimates.

General Fund Budgetary Highlights

The General Fund is the chief operating fund of the primary government. **Table MDA-12** presents variances between revised budget amounts and actual expenditures for the fiscal year ended September 30, 2025.

Table MDA-12
Schedule of General Fund Budgetary Basis Revenues and Expenditures (\$000s)

	Original Budget	Revised Budget	Actual	Variance (Actual to Revised Budget)
Revenues and other sources				
Taxes	\$ 10,190,581	\$ 10,668,976	\$ 10,834,658	\$ 165,682
Licenses and permits	160,446	138,545	142,626	4,081
Fines and forfeitures	335,584	281,549	271,410	(10,139)
Charges for services	397,066	401,732	429,407	27,675
Miscellaneous	294,789	201,363	149,891	(51,472)
Other sources	791,812	951,087	957,304	6,217
Bond proceeds	11,000	11,000	7,664	(3,336)
Interfund transfers	158,945	215,842	208,422	(7,420)
Total revenues and other sources	12,340,223	12,870,094	13,001,382	131,288
Expenditures and other uses				
Governmental direction and support	1,486,338	1,441,700	1,417,963	23,737
Economic development and regulation	484,000	445,467	441,319	4,148
Public safety and justice	1,622,499	1,707,351	1,681,606	25,745
Public education system	3,697,625	3,762,322	3,730,602	31,720
Human support services	2,865,647	2,954,740	2,943,538	11,202
Operations and infrastructure	1,526,340	1,486,736	1,468,651	18,085
Repayment of bonds and interest	1,259,219	1,089,521	1,088,598	923
Other expenditures and uses	283,430	280,975	280,975	-
Total expenditures and other uses	13,225,098	13,168,812	13,053,252	115,560
Excess of revenues and other sources over expenditures and other uses - budgetary basis	(884,875)	(298,718)	(51,870)	(892,955)
Use of fund balance	904,221	1,294,380	154,577	(1,139,803)
Excess after use of fund balance	\$ 19,346	\$ 995,662	\$ 102,707	\$ (892,955)

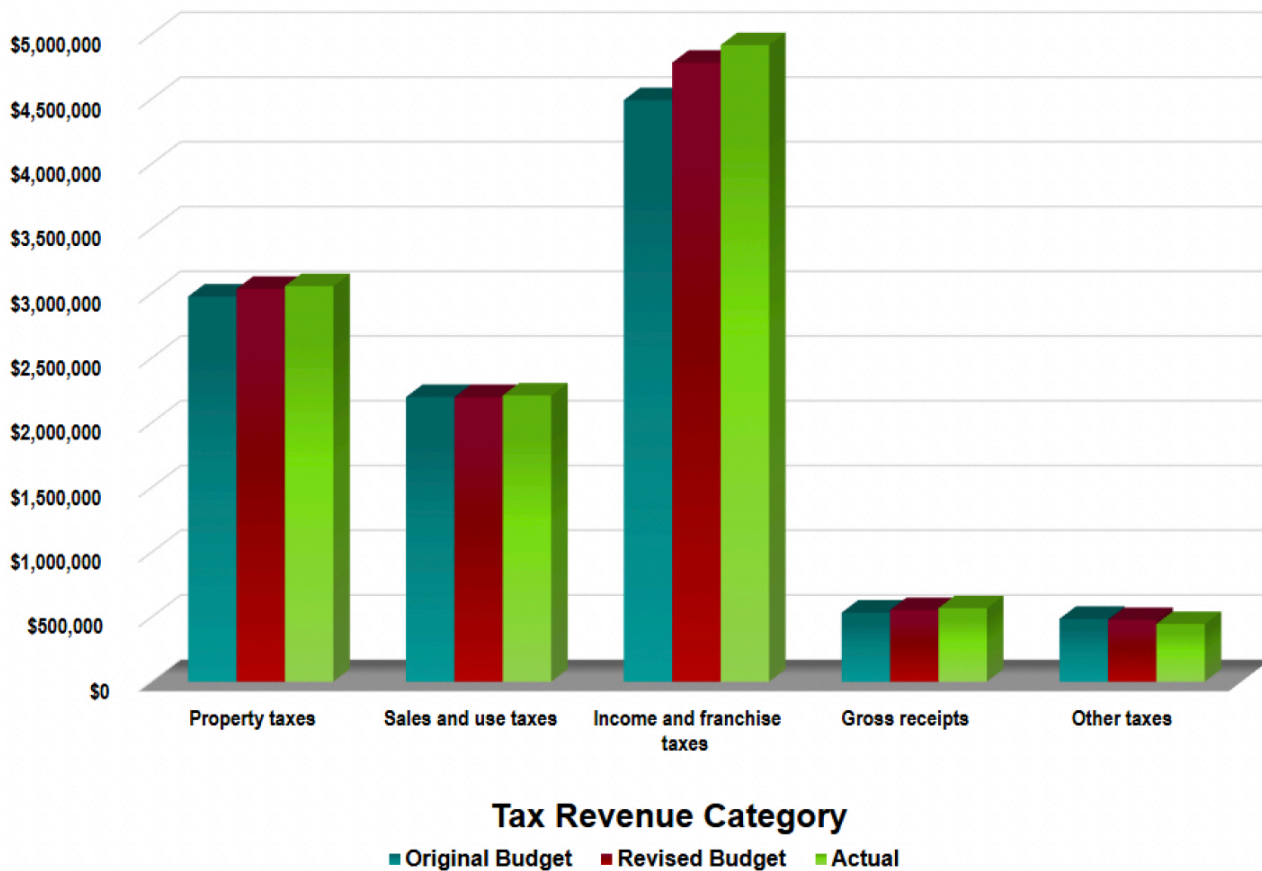
Revenues and Other Sources

During fiscal year 2025, actual tax revenues comprised 83.33% of the General Fund’s total revenues and other sources. As presented in **Table MDA-12**, actual General Fund revenues and other sources were \$131,288, or 1.02%, more than the revised budget. This variance was primarily attributable to higher-than-expected revenues in real property, individual income and franchise taxes, as well as growth in non-tax revenues from miscellaneous revenue which consists of interest income, unclaimed property proceeds and other sources.

Use of fund balance is defined as the portion of fund balance that was restricted or committed for either a period of time or for a particular purpose for which the imposed conditions have been met, allowing the resources to become available for use. In other words, this amount of fund balance was used to help finance operations in the current year. As presented in **Table MDA-12**, the District utilized the fund balance by drawing on its available reserves to finance costs associated with activities that were not covered from the revenues generated during the fiscal year.

Chart MDA-5 graphically presents differences between the General Fund’s original budget, final revised budget, and actual tax revenues (by type of tax) for fiscal year 2025.

Chart MDA-5
FY 2025 Budgetary Comparison – Tax Revenues
Original and Revised Budgets with Actual Results (\$000s)



Note:
 For more detailed information, refer to the Schedule of Local Source Revenues for the General Fund, Exhibit A-4, presented on page 176.

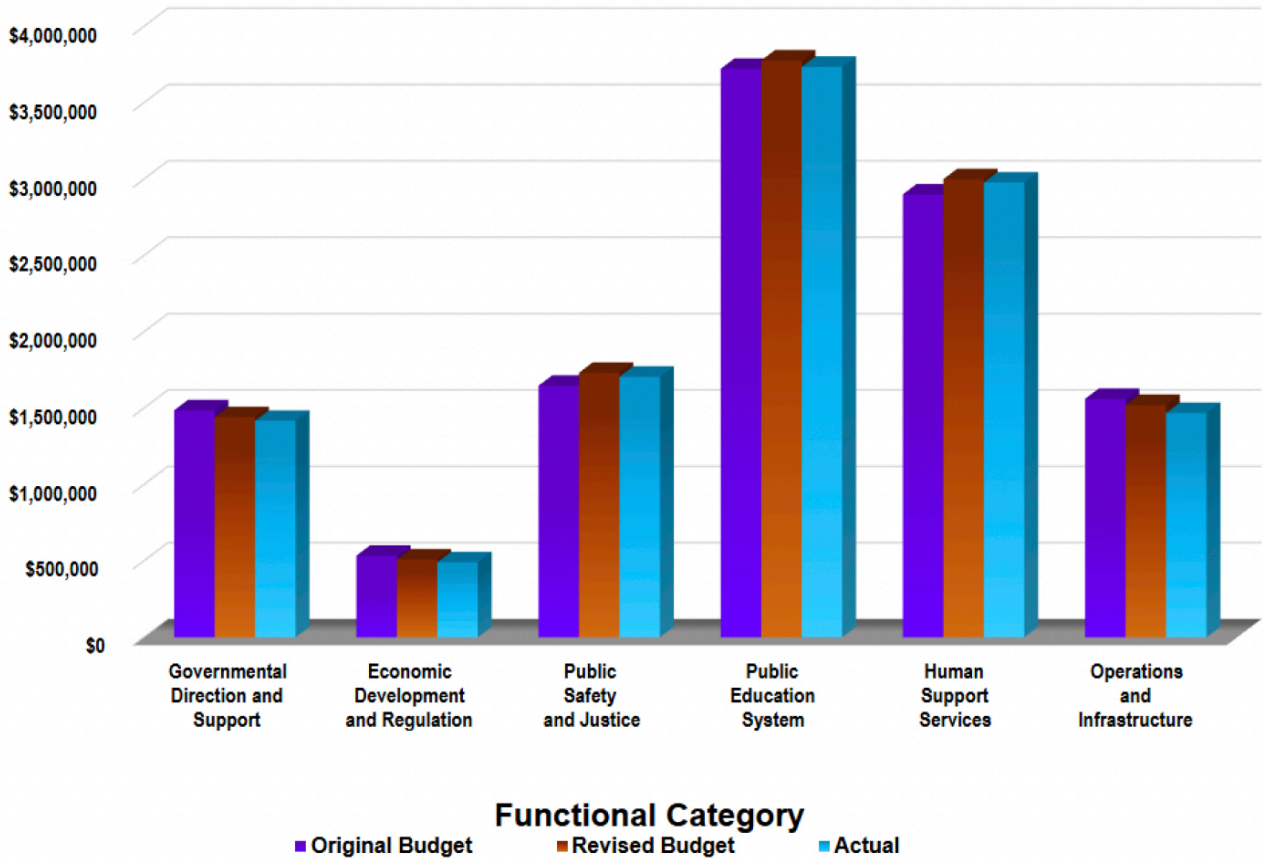
Expenditures and Other Uses

Actual General Fund expenditures and other uses were \$115,560, or 0.88%, less than the revised budget. As presented in **Table MDA-12**, this variance is primarily attributable to underspending in areas of Public Education System, Public Safety and Justice, and Governmental Direction and Support.

Notably, expenditures in Public Education System, Human Support Services, Public Safety and Justice, and Operations and Infrastructure areas collectively constituted 75.26% of the total actual General Fund expenditures and other uses.

Chart MDA-6 graphically presents differences between the General Fund’s original budget, revised budget, and actual expenditures (by functional category) for fiscal year 2025.

Chart MDA-6
FY 2025 Budgetary Comparison – General Fund Expenditures (by Function)
Original and Revised Budgets with Actual Results (\$000s)



Note:
 For more detailed information, refer to the budgetary schedule for the General Fund, Exhibit A-6, which is presented on page 178.

ECONOMIC OUTLOOK AND OTHER EVENT

Economic Outlook

The District's economy is closely tied to the federal government, whose policies directly affect local operations and outlook. In September 2024, the federal government accounted for over 24% of District employment and 27.5% of wages. Mandated federal workforce reductions in fiscal year 2025 had broad impacts, including higher unemployment, reduced income and consumer spending, and increased commercial vacancies affecting property values and tax revenues. Moreover, continued remote work further depressed office demand, with fiscal year 2026 assessments showing declines across property classes, leading to expected reductions in property and sales tax revenues.

On July 4, 2025, the President signed the One Big Beautiful Bill Act (OBBBA), which significantly altered the federal tax code. Because the District's tax structure partially conforms to federal definitions, these changes will reduce local revenues. For individuals, OBBBA excludes certain wages from taxable income, raises the standard deduction, and expands credits, lowering District income tax liabilities. For businesses, new depreciation allowances, full expensing of research costs, and expanded interest deductions reduce taxable income. The District estimates OBBBA will lower income tax revenues by about \$657.8 million from fiscal years 2025–2029, based on economic forecasts and historical data. Actual impacts may vary due to economic conditions and taxpayer behavior, and the District will update projections as new federal guidance emerges.

CONTACT INFORMATION FOR THE OFFICE OF THE CHIEF FINANCIAL OFFICER

This ACFR is designed to provide a general overview of District finances and to demonstrate the effectiveness of the systems of accountability for the resources the District receives. If you have any questions regarding this report, suggestions for improvement, or need additional financial information, please contact:

Office of the Chief Financial Officer

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