

# CITIZEN'S FINANCIAL REPORT



# 2012

**YEAR ENDED SEPTEMBER 30, 2012**

VINCENT C. GRAY • MAYOR

NATWAR M. GANDHI • CHIEF FINANCIAL OFFICER



GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER

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February 25, 2013

Dear Citizens of the District of Columbia:

*We are pleased to present to you the Citizen's Financial Report on the financial condition of the Government of the District of Columbia (District). The purpose of this report, which is referred to as the Popular Annual Financial Report (PAFR), is to summarize the financial information presented in the District of Columbia's Fiscal Year 2012 Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and is independently audited. This PAFR is intended to simplify but not replace the CAFR.*


*This is the District's tenth publication of the Citizen's Financial Report. In the previous nine fiscal years, the District was honored with the prestigious "Award for Outstanding Achievement in Popular Annual Financial Reporting" issued by the Government Finance Officers Association (GFOA). It is expected that this report would continue to conform to the Popular Annual Financial Reporting requirements of the GFOA.*

*We welcome any feedback regarding the contents of this report. If you desire more information concerning the District of Columbia Government and its various departments and agencies, please visit our web site at [www.dc.gov](http://www.dc.gov).*

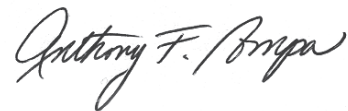
*Respectfully submitted,*



Vincent C. Gray  
Mayor



Natwar M. Gandhi  
Chief Financial Officer



Anthony F. Pompa  
Deputy CFO  
Financial Operations & Systems



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# **Award for Outstanding Achievement in Popular Annual Financial Reporting**

**PRESENTED TO**

**District of Columbia**

**for the Fiscal Year Ended**

**September 30, 2011**



*Christopher P. Morrell*  
President

*Jeffrey L. Esser*  
Executive Director

# District of Columbia Citizen's Financial Report



**Fiscal Year Ended September 30, 2012**

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## Introduction

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The Popular Annual Financial Report (PAFR) is a report for the citizens. It provides information about the District of Columbia (District) government's financial condition without overwhelming detail and technical accounting terminology. The information provided is derived from the District's **Comprehensive Annual Financial Report (CAFR)**, which is prepared in accordance with **generally accepted accounting principles (GAAP)**.

The PAFR is not required to present the same level of detail as the CAFR. The PAFR contains reports and statements that do not present the entire financial reporting entity and may not conform to GAAP and governmental reporting standards. However, it meets the commitment to provide relevant disclosures to residents regarding the District's financial condition, general economy, and financial trends. It contains summarized financial schedules and tables.

The **fiscal year (FY)** of the District begins on October 1 and ends on September 30. This report presents summary financial information for the District's fiscal year ended September 30, 2012, in a more understandable format and language that includes fewer technical tables than are presented in the CAFR. Below are some explanations to assist you:

**Dollar (\$) Amounts:** In the narrative and in some tables, the dollar amounts are expressed in millions or billions as indicated.

In other tables, to save space, dollar amounts are expressed as (\$000s); meaning that the amounts are expressed in thousands. Two examples are: (1) \$1,000 would be expressed as \$1 and (2) \$1,500,000 would be expressed as \$1,500.

**Glossary:** Certain technical financial terms must be used to accurately present the financial information in this report. For that reason, a Glossary is included on pages 23 and 24 to provide definitions of these technical terms.

Whenever a technical word or financial term is used for the first time (in a non-title format) in this PAFR, it is presented in **green bold text** in the narrative. This indicates that the definition of that word or phrase is in the Glossary.

A copy of the District's FY 2012 CAFR and PAFR may be obtained from:

Office of Financial Operations & Systems  
1100 4th Street, SW, 8<sup>th</sup> Floor  
Washington D.C. 20024  
(202) 442-8200

The FY 2012 CAFR and PAFR may also be viewed on the District's web site at: [www.cfo.dc.gov](http://www.cfo.dc.gov).

### Financial Reporting Entity

The financial reporting entity of the District includes all of the government's agencies and its five (5) discretely presented **component units**. However, this popular report does not include financial information for the District's component units. For information on the District's component units, please contact the representatives or offices shown below:

**DC Water and Sewer Authority**  
General Manager  
5000 Overlook Avenue, S.W.  
Washington, D. C. 20032  
202-787-2000

**Housing Finance Agency**  
Executive Director  
815 Florida Avenue, N.W.  
Washington, D. C. 20001  
202-777-1600

**Not-For-Profit Hospital Corporation**  
dba United Medical Center  
Chief Executive Officer  
1310 Southern Avenue, S.E.  
Washington, D.C. 20032  
202-574-6000

**University of the District of Columbia**  
President  
4200 Connecticut Avenue, N.W.  
Washington, D. C. 20008  
202-274-5000

**Washington Convention and Sports Authority**  
General Manager  
801 Mount Vernon Place, N.W.  
Washington, D. C. 20001  
202-249-3000

### Elected Officials

January 2, 2013

Name	Position	First Took	
		Office	Term Expires
Chief Executive Officer			
Vincent C. Gray	Mayor	2011	2015
Council			
Phil Mendelson	Chairman	1999	2015
David Catania	At Large	1997	2015
David Grosso	At Large	2013	2017
Anita Bonds	At Large	2012	2013
Vincent Orange	At Large	2011	2017
Jim Graham	Ward 1	1999	2015
Jack Evans	Ward 2	1991	2017
Mary M. Cheh	Ward 3	2007	2015
Muriel Bowser	Ward 4	2007	2017
Kenyan McDuffie	Ward 5	2012	2015
Tommy Wells	Ward 6	2007	2015
Yvette M. Alexander	Ward 7	2007	2017
Marion Barry, Jr.	Ward 8	2005	2017
House of Representatives			
Eleanor Holmes Norton	Delegate	1991	2015

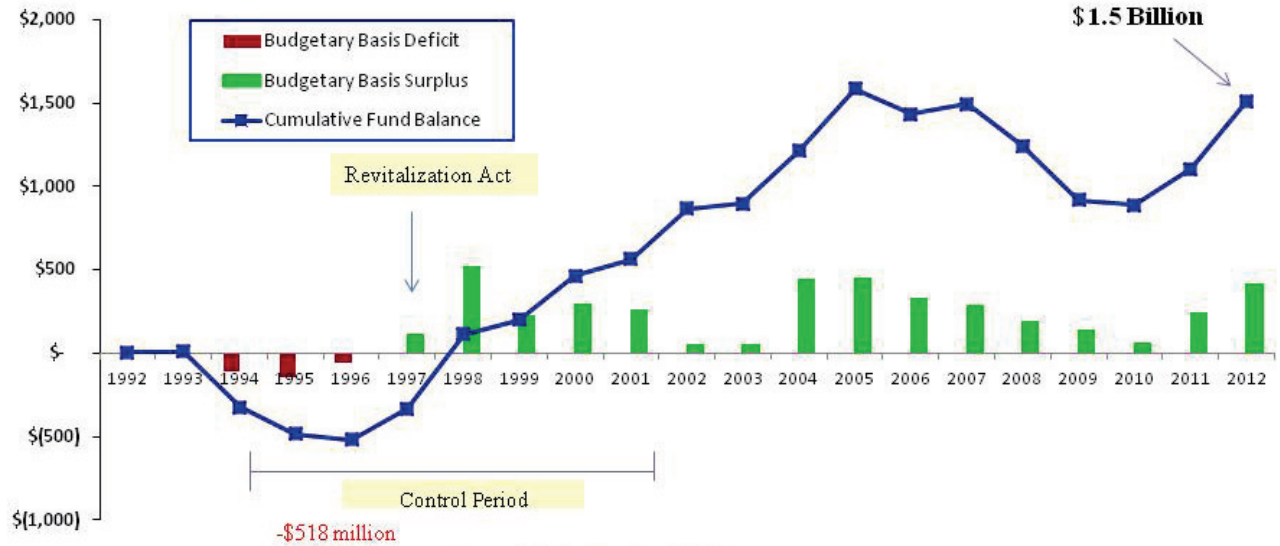
## Financial Condition

### FY 2012 Highlights:

- The District again earned an **unqualified** or **“clean” audit opinion** on its financial statements.
- 16<sup>th</sup> consecutive balanced budget.
- The **General Fund**, which accounts for taxes, fees and charges for services, ended the year with a budgetary surplus of \$417 million.
- The District's general obligation bond ratings remained as follows: *Standard & Poor's Rating Service*, **A+**; *Moody's Investors Service*, **Aa2** and *Fitch Ratings*, **AA-**.
- The District's income tax secured revenue bonds were rated for its fourth year as follows: **AAA** by *Standard & Poor's Rating Service*; **Aa1** by *Moody's Investors Service*; and **AA+** by *Fitch Ratings*.
- The General Fund showed an accumulated **fund balance** of \$1.5 billion, an increase of \$402 million over last year.
- The District has set aside \$339 million in an emergency/contingency cash reserve and \$442 million in a fiscal stabilization/cash flow reserve for a total of \$781 million.
- The District is restricted by law to spend no more than 17% of total general fund revenues for general obligation **debt service** each year. However, the actual debt service for FY 2012 was only 7.1% of total revenues, or about 41.5% of the debt service ceiling.
- Effective in FY 2009, the District self imposed a more stringent annual debt service limit of 12% of general fund expenditures on all District bonds.

FY 2012 General Fund Budgetary Surplus			
(\$ in millions)			
	Revised Budget	Actual	Variance
<b>Revenues</b>			
Taxes	\$ 5,616	\$ 5,842	\$ 226
Non Taxes	814	881	67
Fund Balance Use	70	6	(64)
All other general fund sources	100	92	(8)
<b>Total revenues</b>	<b>\$ 6,600</b>	<b>\$ 6,821</b>	<b>\$ 221</b>
<b>Expenditures</b>			
FY2012 Expenditures	\$ 6,383	\$ 6,266	117
FY2013 Advance to Public Education	138	138	-
<b>Total expenditures</b>	<b>\$ 6,521</b>	<b>\$ 6,404</b>	<b>117</b>
<b>SURPLUS</b>		<b>\$ 417</b>	

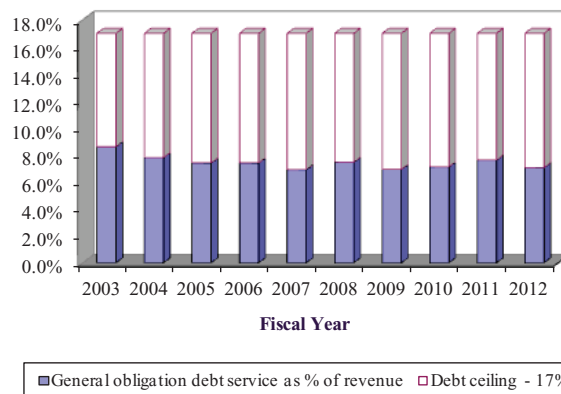
## Surplus and Bond Rating History FY 1992 – FY 2012 (\$ in millions)



General Obligation Bond Ratings																			
S&P:	A-	A-	A-	BBB-	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A	A+	A+	A+	A+	A+	A+
Moody's:	Baa	Baa	Baa	Ba	Ba	Ba2	Ba1	Ba1	Baa3	Baa3	Baa1	Baa1	A2	A2	A2	A1	A1	Aa2	Aa2
Fitch:		A-	BBB+	BB	BB	BB	BB+	BB+	BBB	BBB	BBB+	A-	A-	A	A	A+	A+	AA+	AA-

**Income Tax Secured Revenue Bonds: S&P: AAA Moody's: Aa1 Fitch: AA+**

### General Obligation Debt Service as a Percentage of Revenues





## Economic Condition

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Although the District's economy showed signs of recovery in FY 2012, certain risks continued to "cloud" the District's economic and financial outlook. Cutbacks in federal spending posed the most serious threat to the District's economy in addition to other factors such as unresolved issues related to the European debt crisis and the possibility of a downturn in the still fragile national economy.

### ***Economic Highlights:***

- Sales and use taxes collected were \$1.22 billion, an 8.9% increase over the \$1.12 billion collected in FY 2011.
- Property taxes collected were \$1.93 billion, a 7.2% increase over the \$1.80 billion collected in FY 2011.
- Total taxable property value was \$146.5 billion, a 5.2% increase over the \$139.3 billion value in FY 2011.
- Since January 2012, growth in wage and salary jobs located in the District has slowed, however, resident employment has been on the rise. District resident employment was 15,729 in July 2012, which was 5.1% more than a year earlier.

## Tourism and Hospitality

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Each year, millions of U.S. citizens and international tourists visit the District's more than 400 museums and historical landmarks. In calendar year 2011, approximately 16.1 million domestic visitors and 1.8 million international visitors traveled to the District. The District's hospitality industry generated an estimated \$6.03 billion in visitor spending on hotels, retail, transportation and entertainment in 2011, which was an increase of 6.0% over the prior year. (At the date of this report, the 2012 calendar year visitor figures are not yet available.) Hotel occupancy was approximately 75.3% at September 30, 2012. Travel and tourism supports more than 76,256 jobs in the District, generating approximately \$3.06 billion in wages.

## Structural Imbalance

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The District faces a substantial structural deficit because the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. Some of the major factors contributing to this **structural imbalance** are:

- The District has a large share of very poor and needy citizens.
- Costs of service delivery in the District are 123 percent of national levels; capital costs (buildings) are 1.5 times national average.
- Unlike other jurisdictions, the District cannot divert resources from wealthier suburban areas to serve the poor.
- The District is prohibited from taxing income earned by non-residents – 66% of total income is earned by non-residents, mostly daily commuters to the city.
- The District has an especially high concentration of non-taxable real property; value of property held by the federal government is 30% of non-residential property values.
- Because of the inability to tap these resources, residents must shoulder a disproportionate share of the costs of public services, while the benefits are shared by a much larger community.

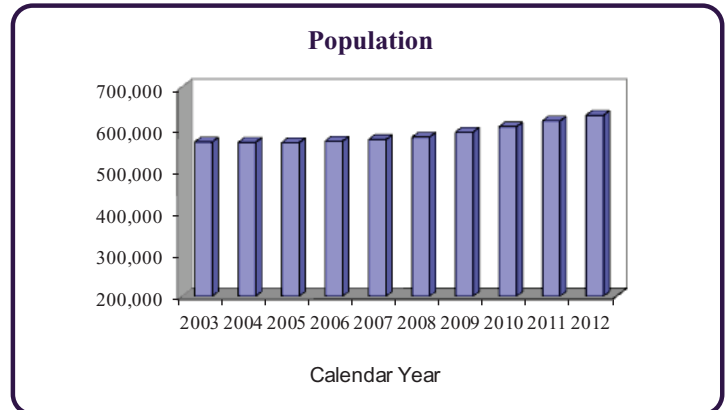
In May 2003, the United States Government Accountability Office (GAO) issued the report "*District of Columbia – Structural Imbalance and Management Issues*" to address the District's known structural imbalance. The report states that the District's structural deficit is estimated to range from \$470 million to \$1.143 billion annually.

Please visit GAO at [www.gao.gov](http://www.gao.gov) to view the full report or contact GAO on (202) 512-3000 to request a copy of report number GAO-03-666.

## Population Trends

Population estimates are published each year by the U.S. Census Bureau. In July of each year, new estimates are released and estimates for earlier years are revised. On July 1, 2012, the U.S. Census Bureau estimated that there were 632,323 residents in the District. This represents an increase of 13,303, or 2.1% from the revised July 1, 2011 estimate of 619,020.

The Census Bureau's estimates are determined from births, deaths, changes in tax return filings and estimates of the number of immigrants who move into the District each year. These estimates are used in federal funding allocations and in monitoring recent demographic changes.

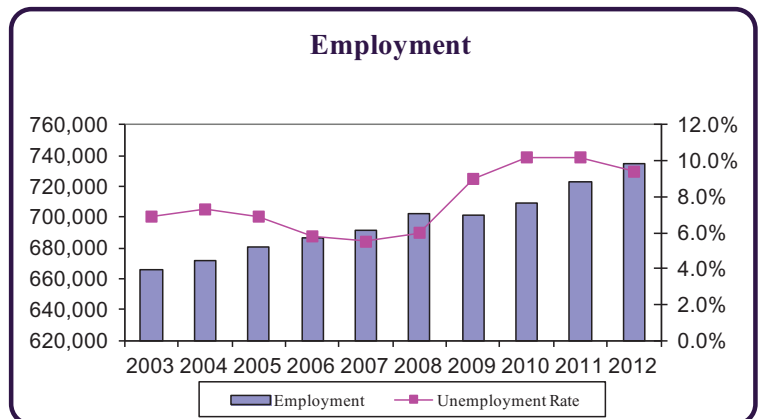


## Employment Trends

Total employment within the District increased to 736,600 as of September 2012 from 728,400 as of September 2011.

The unemployment rate in the District decreased to 8.7% in FY 2012, compared to 11.1% in FY 2011.

As the nation's capital, Washington, D.C. is headquarters for most federal government departments and agencies. The September 2012 federal workforce in the Washington metropolitan area totaled 382,900; with approximately 209,700 federal employees located in Washington, D.C. and 173,200 additional federal employees who worked elsewhere in the Washington metropolitan area.



## Minimum Wage

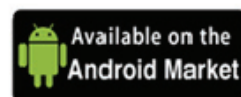
District law requires that the minimum wage rate for District employees be at least \$1.00 per hour more than the federal minimum wage. Beginning on July 24, 2009, the federal minimum wage rate was increased to \$7.25 per hour. Therefore, effective July 24, 2009, the District's minimum wage rate increased to \$8.25 per hour and remained unchanged through calendar year 2012.

## New & Ongoing Initiatives

### DC311 Smartphone App

In April 2012, the District launched the new DC311 Smartphone App, a free download application which allows citizens to report service requests from their iPhone or Android mobile devices. District residents are now able to report common, non-emergency quality-of-life issues – such as potholes, graffiti, downed trees and streetlight outages – to 311 with just a few clicks from their mobile device. This new tool, together with the Citywide Call Center and 311Online, is yet another way the community can report non-emergency problems that need to be rectified. Information from all these sources is funneled into one database for tracking and resolution.

Download the DC311 App from the [iTunes Store](#) or the [Android Market](#).



### Anacostia River Clean Up and Protection Fund/ Carryout Bag Fees

The District Department of the Environment (DDOE) conducted a study of trash in the Anacostia River, and found that disposable plastic bags were one of the largest sources of litter. This initiated the Anacostia River Clean Up and Protection Act of 2009 or “Bag Law”. This new law, the first of its kind in the U.S., requires that all District businesses selling food or alcohol charge \$.05 for each disposable paper or plastic carryout bag. On January 1, 2010, District businesses began implementing the Bag Law. Almost immediately, businesses began seeing a drastic reduction in bag usage, and environmental clean-up groups witnessed fewer bags polluting DC waterways.

Businesses keep 1 cent (or 2 cents if a rebate is offered when customers bring their own bag), and the remaining 3 or 4 cents goes to the Anacostia River Protection Fund. The proceeds from this fund are used to clean and protect the Anacostia River and other local waterways.

During FY 2012, the District collected \$2 million in bag taxes. Since the inception of the tax in 2010, the District has collected more than \$5.3 million in such taxes.



#### Bag Law Fees Collected

FY 2012	\$2 million
FY 2011	\$1.8 million
FY 2010	\$1.5 million

## **Great Streets Initiative**

The Great Streets Initiative is a partnership between the District Department of Transportation (DDOT), the Office of the Deputy Mayor for Planning and Economic Development, and the Office of Planning that targets major boulevards in the city to improve the condition and function of the streets and roadways; promote local business enterprise; and improve neighborhood quality of life.

### ***Pennsylvania Avenue Great Streets Project***

In March 2012, the District celebrated the completion of the Pennsylvania Avenue Great Streets Project, which began in November 2009. This \$35.8 million project has dramatically improved this corridor, making it safer for pedestrian and vehicular traffic and much more visually appealing.

The Pennsylvania Avenue Great Streets Project covers two miles, from 200 feet west of 27<sup>th</sup> Street, S.E. to Southern Avenue, S.E. on the Maryland border. It runs through the historic neighborhoods of Fairlawn, Randle Highlands, Hillcrest, and Fairfax Village. A portion of the corridor was reduced from five lanes to four. In its place, DDOT added a landscaped median and turn pockets that protect pedestrians and neighborhood vehicles. Special streetscape treatments were designed to highlight and enhance the retail nodes along the corridor, and DDOT completed the sidewalk network on both sides of the street for the full length of the corridor. This project also includes multiple Low Impact Development (LID) features, including three environmentally friendly rain gardens. Such rain gardens are used to filter out pollutants prior to storm runoff entering storm-sewer systems, and local waterways.

The District's Great Streets Initiative provided approximately \$11 million for the project, and \$19.5 million was provided by the American Recovery and Reinvestment Act (ARRA) of 2009. The remainder came from other local and federal sources.

## **Capital Bikeshare**

Launched in 2010, Capital Bikeshare is a bikesharing program operated by the District Department of Transportation (DDOT) in partnership with Arlington County, Virginia. Capital Bikeshare puts over 1,670 bicycles at your fingertips from over 175 stations across Washington, D.C. and Arlington, Virginia and you may return a bike to any station near your destination. A commuter can join Capital Bikeshare for 24 hours, 3 days, 30 days, or a year, and have access to a fleet of bikes 24 hours a day, 365 days a year. The first 30 minutes of each trip are free. For each additional 30 minutes, the commuter incurs an additional fee.

### ***2012 Expansion Plans***

As part of DDOT's effort to expand bikesharing in the District, 54 new locations were selected from a list of 78 suggested locations submitted by the public over the past 2 years. DDOT evaluated the locations using several criteria, including population density, employment density, bike-to-work rate, proximity to metro, and proximity to other Bikeshare stations. Also included in the expansion plans, the city of Alexandria, Virginia became the newest member of the Capital Bikeshare community. Working together, the District of Columbia, Arlington County, and Alexandria are proud to bring expansive, regional transportation to the city.

You may visit [www.capitalbikeshare.com](http://www.capitalbikeshare.com) for station maps and any information regarding this program.





## Neighborhood Revitalization

### The Shops at Dakota Crossing

In February 2012, the District broke ground on a 44-acre site which will house The Shops at Dakota Crossing in Ward 5's gateway community of Fort Lincoln New Town. When completed, the center will include 430,000 square feet of retail space and 2,000 parking spaces. Additionally, it will create 1,200 new jobs (permanent and construction) in the District, and generate \$634 million in tax revenues for the District over the next 30 years. It will also bring convenient shopping choices to the surrounding communities, neighboring suburbs and beyond.

In November 2012, Costco Wholesale became the first retail tenant to open for business at The Shops at Dakota Crossing. The 154,000 square-

foot retail membership warehouse offers quality name-brand and private-label merchandise, and features a fresh bakery, fresh meat and produce, a fresh deli, an optical department, a 1-hour photo, a pharmacy, a tire center, hearing aid center, a food court, and fine wines and liquors. This is the first Costco Wholesale warehouse in the District of Columbia and is the company's 448th store in the United States and Puerto Rico and its 619th worldwide.

The Shops at Dakota Crossing is located on Market Street NE, just inside the District line off South Dakota Avenue, NE and a short distance from heavily traveled Route 50 and DC 295/Baltimore-Washington Parkway.

### The Shops at Dakota Crossing Site Plan

Anchor Tenants: Costco Wholesale, Marshalls and Lowe's. Completion Date: Early 2014







The new and 1<sup>st</sup> Costco Wholesale warehouse retail store in the District of Columbia.

### CityCenter DC

Construction, which began in March 2011, is noticeable at the upcoming CityCenter DC development. The \$700 million, mixed-use development is believed to be the largest downtown development currently underway in any U.S. city. Located between New York Avenue, 9<sup>th</sup>, H and 11<sup>th</sup> Streets, NW, CityCenter DC will be a prominent location in the heart of the District of Columbia. The entire development has received a Gold certification for LEED® Neighborhood Development. It is expected to reach substantial completion by the fourth quarter of 2013.



#### PROJECT SCOPE

Parcel Size	10-acres
Retail	265,000 sq ft
Residential Rental	458 units
Residential Condominiums	216 units
Office	515,000 sq ft
Hotel	370 rooms
Total Parking	1,800 spaces
Public Spaces	1.5-acres



Covering three pedestrian city blocks, CityCenter DC will include seven buildings, a park, a plaza and three entrances to an underground public parking garage.

### The Nannie Helen at 4800

In February 2012, the District broke ground on the Nannie Helen at 4800 project located at 4800 Nannie Helen Burroughs Avenue, NE. This will be a mixed-use development that provides affordable housing, retail space and other needed amenities in Ward 7's historic Deanwood community. The five-level building will have 70 affordable housing units; 1,790 square feet of retail space; 1,900 square feet for an adult education and fitness center and 3,438 square feet for office space. The housing units will consist of one, two and three bedroom apartments. The project will also include 41 residential parking spaces and replacement units for residents of the Lincoln Heights housing development. The project is part of the over \$2.3 billion worth of District-affiliated projects currently under construction across the city, creating thousands of construction jobs and permanent jobs.

## Completed Projects

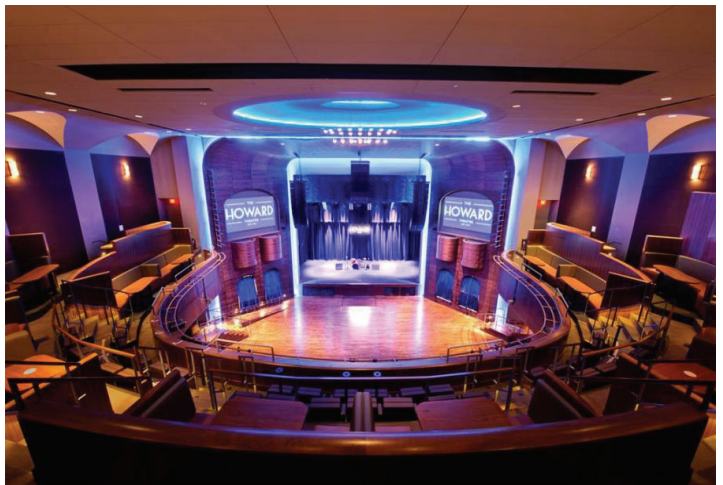
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### The Howard Theatre

The historic Howard Theatre, located at 620 T Street, NW, reopened April 2012 after undergoing a \$24 million renovation and being closed for more than 30 years. The remodeled 34,000 square foot entertainment venue allows 600-700 seated or 900-1,000 standing with balcony seating to support a wide variety of events. The new configuration includes state-of-the-art acoustics; video and recording capabilities; a deeper stage; basement and additional wing space; gourmet kitchen and administrative office space. Also, a 600 square foot museum and gift shop showcases memorabilia, photos and videos of the artists and guests who have graced The Howard Theatre in years past.

The Howard Theatre opened in 1910 and was the nation's first full-sized theater for African American audiences and entertainers. For most of the 20th century, The Howard Theatre captivated audiences with music, dance, drama and comedy. Legends such as Duke Ellington, Ella Fitzgerald, Louis Armstrong, Billie Holliday, Cab Calloway and Nat King Cole graced The Howard Theatre stage and made way for talents like Marvin Gaye, Aretha Franklin, Dizzy Gillespie, The Supremes, Otis Redding, Lena Horne and James Brown. It was added to the National Register of Historic Places in 1974. Although, the Howard Theatre inspired change, it felt the impact of a nation in flux following the 1968 riots and, eventually, the degradation of the neighborhood forced the theater to close in 1980.

Today, the Howard Theatre is enjoying rebirth and entering a new era in its long and prestigious history.



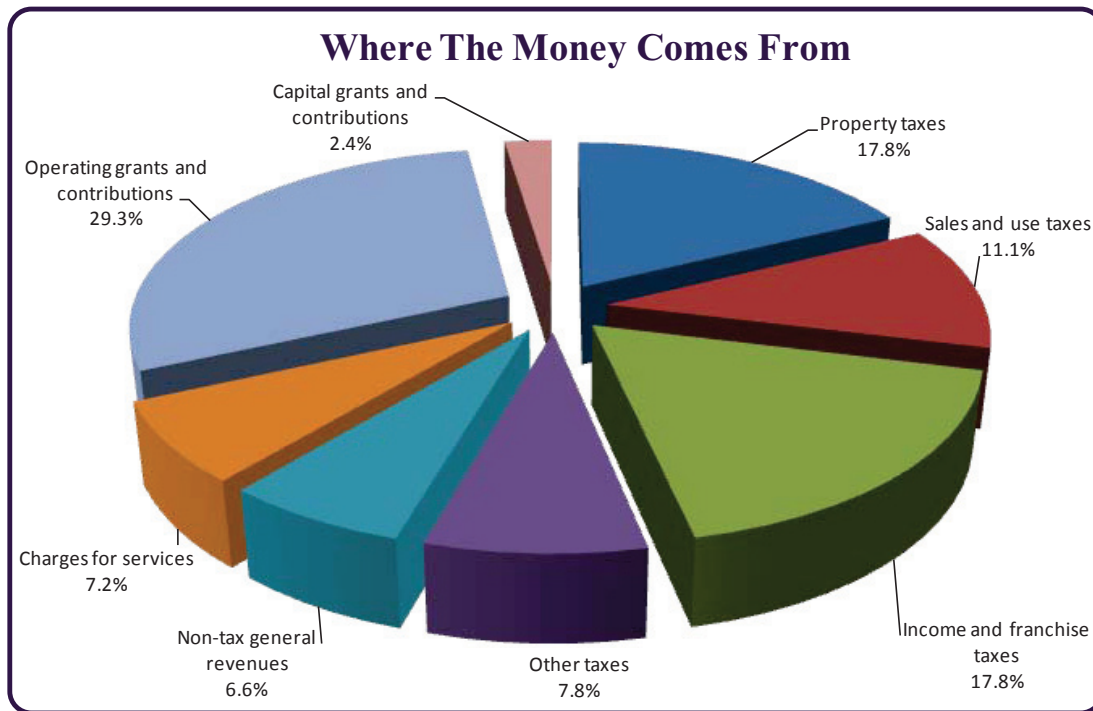
## Financial Resources

### District-Wide Revenues

The majority of the District's funds come from taxes which represented 54.5% of total revenues in FY 2012. This was a 10.8% increase from total tax revenues in FY 2011 due to the economic recovery from the recent national recession. The District collected over \$1.96 billion in income and franchise taxes in FY 2012, which was \$300 million or 18.1% more than in FY 2011.

The District also collected \$1.95 billion in property taxes, \$1.22 billion in sales and use taxes, and \$857 million in other taxes in FY 2012.

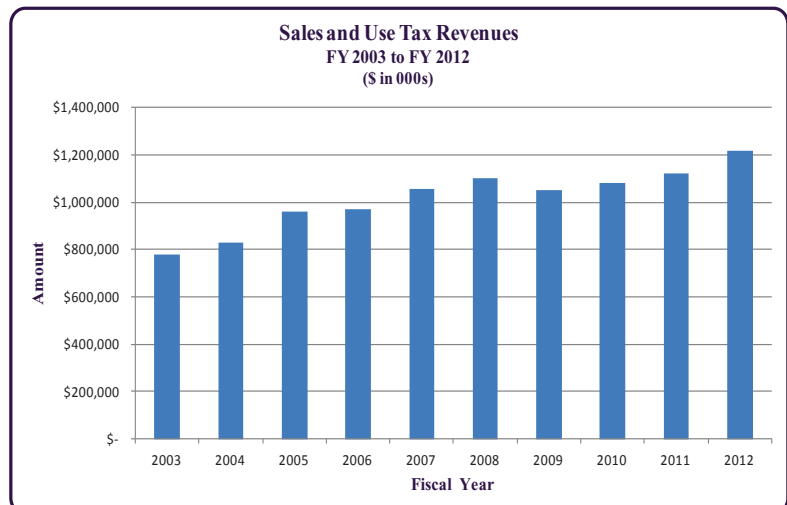
Other revenues are derived from federal and private resources, which include operating grants and contributions.



### Sales and Use Taxes

The District collected \$1.22 billion of sales and use tax revenues in FY 2012, which was a \$97 million increase from the \$1.12 billion collected in FY 2011.

The general sales tax rate in the District is currently 6.00%.

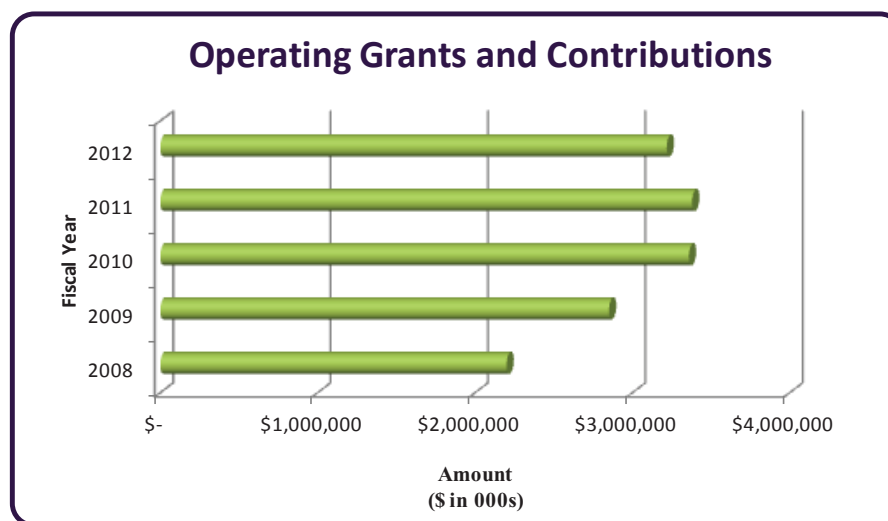


In addition, \$3.2 billion, or 29.3%, of the District's FY 2012 revenues came from operating grants and contributions received from the federal government and private sources. A portion of the funding received from these sources was in the form of assistance provided under the Federal American Recovery and Reinvestment Act, also known as the Stimulus Act. The District received Stimulus funding to support road and bridge construction; public transportation improvements; energy efficiency and environmental projects; healthcare and health research; education; and public safety.

During FY 2012, total stimulus operating expenditures were approximately \$48.7 million, which was approximately \$157 million, or

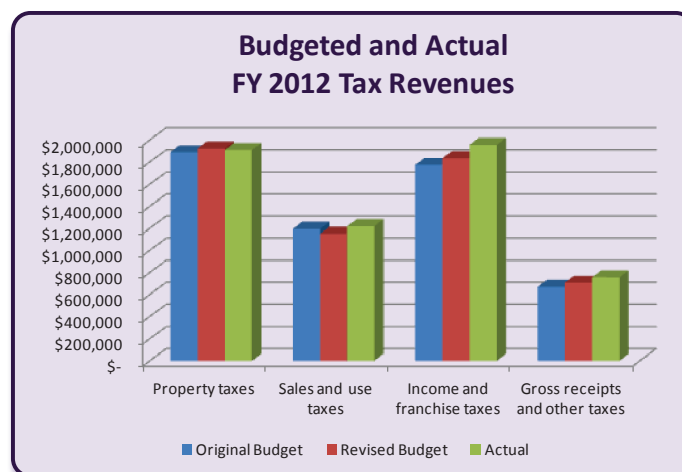
76.3% less than the amount of such expenditures in the prior year. Of the \$48.7 million stimulus operating expenditures, \$39.1 million or 80.2% was made by the following agencies: Department of Health (10.7%), Office of the State Superintendent for Education (41.5%), Department of Housing and Community Development (15.1%), and District Department of the Environment (12.9%).

The District also expended \$38.4 million of stimulus funds for capital purposes during FY 2012. Of this amount, approximately \$20.6 million, or 53.7% was spent by the District Department of Transportation for roads, streets, bridges and other infrastructure projects.



## General Fund Budget

The General Fund is the chief budgetary operating fund of the District. About 85.7% of the General Fund's actual FY 2012 revenues were derived from taxes and about 64.4% of the General Fund's actual FY 2012 expenditures were in the areas of Human Support Services, Public Education, and Public Safety. *Budgeted* revenues and other sources totaled \$6.60 billion in FY 2012; however, *actual* revenues and total sources were \$6.82 billion. *Budgeted* expenditures and other uses totaled \$6.52 billion in FY 2012; however, *actual* expenditures and other uses totaled \$6.40 billion.





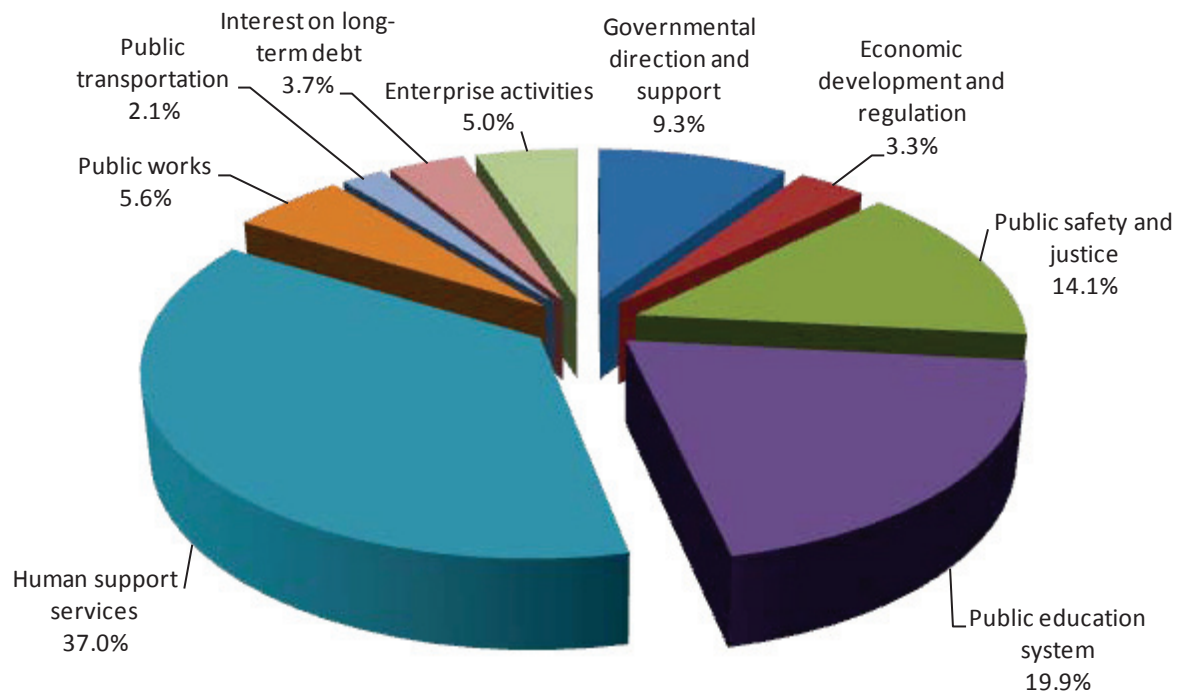
## Resource Allocation

The District provides a broad range of services to its residents, including those normally provided by states and counties. These services include: public safety and justice, public education, human support services, public transportation, and public works.

In FY 2012, the District's total expenses were \$10.6 billion. Human Support Services expenditures represented 37% of the total.

The majority of the Human Support Services expenditures were for the District's Medicaid and Medicare programs. Public Education, primarily D.C. Public Schools and Charter Schools, represented 19.9% of the District's total expenses. Public Safety and Justice, mainly the Police Department and Fire and EMS Services, were 14.1% of total District expenses.

### Where the Money Goes





## Debt Management

### Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year in which the debt was incurred. On October 6, 2011, the District issued \$820 million in Tax Revenue Anticipation Notes (TRANs), at an interest rate of 2.00%, which was repaid before the deadline of September 30, 2012.

### Long-Term Debt

In the government-wide financial statements and the financial statements of the proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the respective statements of net assets.

The District's **general obligation bonds** are authorized and issued primarily to provide funds for certain capital projects and improvements.

All general obligation bonds are backed by the full faith and credit of the District.

The District also issues income tax secured revenue bonds. The payment of principal and interest on these bonds comes, for the most part, from available pledged tax revenues. Income tax secured revenue bonds are not backed by the full faith and credit of the District.

The District also issues, on a less frequent basis, other types of long-term debt, including Tax Increment Financing Bonds, Tobacco Bonds, Housing Production Trust Bonds, Qualified Zone Academy Bonds, and other revenue bonds.

At September 30, 2012, the District had a total of \$7.66 billion in outstanding bonds. This represents an increase of \$222.9 million over the prior year. The District's level of borrowing has grown over the past few years as the need and demand for infrastructure improvements, such as roads, streets and bridges continues to increase.

### Outstanding Bonds at September 30, 2012 and 2011 (\$ in 000s)

Outstanding Bond Debt				
Type of Bonds	2012	2011	Dollar Variance	Percentage Variance
General Obligation Bonds	\$ 2,295,225	\$ 2,829,598	\$ (534,373)	-18.9%
Income Tax Secured Revenue Bonds	3,799,645	3,029,100	770,545	25.4%
Other Bonds:				
Qualified Zone Academy Bonds	7,628	8,573	(945)	-11.0%
Tobacco Bonds	677,219	690,289	(13,070)	-1.9%
TIF Bonds	112,985	87,484	25,501	29.1%
Ballpark Bonds	507,935	512,850	(4,915)	-1.0%
GARVEE Revenue Bonds	78,775	82,610	(3,835)	4.6%
HPTF Bonds	82,805	84,335	(1,530)	-1.8%
AWC PILOT Revenue Bonds	84,085	90,660	(6,575)	-7.3%
NCRC Revenue Bonds	14,839	22,715	(7,876)	-34.7%
<b>Total</b>	<b><u>\$ 7,661,141</u></b>	<b><u>\$ 7,438,214</u></b>	<b><u>\$ 222,927</u></b>	<b>3.0%</b>

## **Bond Rating Agencies**

**Rating Agencies** assess the credit quality of municipal issuers and assign a credit rating based on their analyses. The three primary rating agencies that rate municipal debt are: (1) Fitch Ratings; (2) Moody's Investors Service; and (3) Standard & Poor's Rating Service. Each time the District issues new debt, the current debt rating is reviewed for the new issuance. At that time, the bond rating agencies assess the District's financial condition and underlying credit worthiness and change their rating as warranted.

In FY 2012, the District's general obligation bond ratings remained strong at: **AA-** by Fitch Ratings Service; **Aa2** by Moody's Investors Service; and **A+** by Standard & Poor's Rating Service. These ratings are representative of the city's improved financial operations over the last decade and its strong financial standing.

The District's income tax secured revenue bonds also received strong ratings from the three primary rating agencies. At September 30, 2012, the District received credit ratings of: **AA+** by Fitch Ratings; **Aa1** by Moody's Investors Service; and **AAA** by Standard & Poor's Rating Service for its Income Tax Secured Revenue Bonds.

During FY 2012, the District refinanced \$470.8 million of outstanding general obligation bonds, \$95.3 million of outstanding income tax secured revenue bonds, and \$57.5 million of the Gallery Place Tax Increment Financing Bonds, Series 2002. These refinancings reduced the District's debt service payments in FY 2012 and other years without extending the final maturity of a particular bond issue.

## **Bond Rating History** Last Five Fiscal Years

	<b>General Obligation Bonds</b>				
<b>Rating Agencies</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Fitch Ratings	A+	A+	AA-	AA-	AA-
Moody's Investors Service	A1	A1	Aa2	Aa2	Aa2
Standard & Poor's Rating Service	A+	A+	A+	A+	A+

	<b>Income Tax Secured Revenue Bonds</b>				
<b>Rating Agencies</b>	<b>2008*</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Fitch Ratings	-	AA	AA+	AA+	AA+
Moody's Investors Service	-	Aa2	Aa1	Aa1	Aa1
Standard & Poor's Rating Service	-	AAA	AAA	AAA	AAA

\*First issued in 2009.

## Government-Wide Financial Statements

### Governmental Activities

The **government-wide financial statements** combine long-term financial information with the short-term to provide a complete picture of the District's finances. On the other hand, the traditional (fund-based) reporting of governmental activities focuses on short term receipts, disbursements and balances of spendable resources.

This approach accounts for all revenues and expenses incurred in the fiscal year, regardless of when cash is received or spent. The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities.

The government-wide financial statements focus on all of the District's *economic* resources, while the **governmental funds** focus on *current financial* resources.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*.

The *Statement of Activities* summarizes both the gross and net cost of the governmental, business-type activities, and component units activities. Governmental activities show the District's basic functional services, while business-type activities reflect enterprise operations where fees for services are expected to cover all or most of the costs of operations.

### Financial Analysis of the Government as a Whole

The "Net Assets" table below shows comparative data for net assets from governmental activities and business-type activities, and the totals for these two types of activities.

**Net Assets as of September 30, 2012**  
(\$ in 000s)

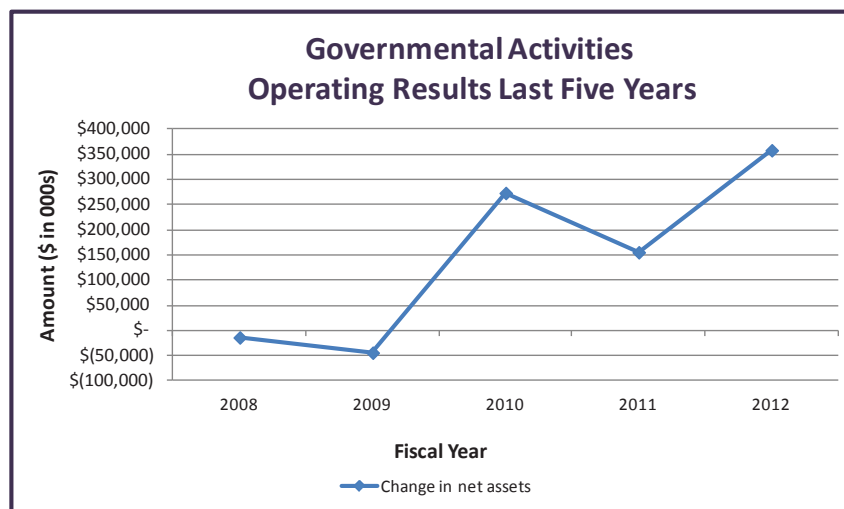
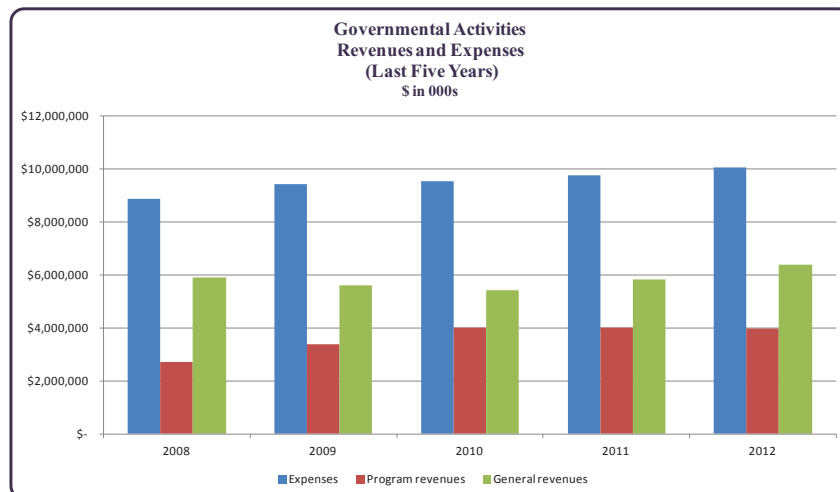
	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Totals</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Current and other assets	\$ 4,266,717	\$ 3,964,874	\$ 324,372	\$ 339,309	\$ 4,591,089	\$ 4,304,183
Capital assets	10,424,959	9,815,312	480	478	10,425,439	9,815,790
Total assets	14,691,676	13,780,186	324,852	339,787	15,016,528	14,119,973
Long-term liabilities	9,164,291	8,723,811	16,381	22,912	9,180,672	8,746,723
Other liabilities	2,198,815	2,085,790	74,454	86,667	2,273,269	2,172,457
Total liabilities	11,363,106	10,809,601	90,835	109,579	11,453,941	10,919,180
Net assets:						
Invested in capital assets,						
net of related debt	2,872,272	2,534,538	480	478	2,872,752	2,535,016
Restricted	1,057,582	963,694	229,930	226,229	1,287,512	1,189,923
Unrestricted	(601,284)	(527,647)	3,607	3,501	(597,677)	(524,146)
<b>Total net assets</b>	<b>\$ 3,328,570</b>	<b>\$ 2,970,585</b>	<b>\$ 234,017</b>	<b>\$ 230,208</b>	<b>\$ 3,562,587</b>	<b>\$ 3,200,793</b>

- Total assets increased by \$896.6 million mainly because the District invested more resources in **capital assets** such as new and rehabilitated infrastructure (roads and bridges).
- The increase of \$534.8 million in total liabilities was due to the issuance of debt to finance the construction of infrastructure and capital improvements.
- The combined total net assets for the governmental activities and business-type activities increased by 11.3% over the previous year.

**Change in Net Assets for the Year Ended September 30, 2012**  
(\$ in 000s)

	Governmental activities		Business-type activities		Totals		Variance
	2012	2011	2012	2011	2012	2011	
<b>Revenues:</b>							
Program revenues:							
Charges for services	\$ 537,403	\$ 490,101	\$ 249,675	\$ 235,884	\$ 787,078	\$ 725,985	\$ 61,093
Operating grants and contributions	3,190,038	3,343,747	27,945	34,968	3,217,983	3,378,715	(160,732)
Capital grants and contributions	261,411	172,964	-	-	261,411	172,964	88,447
General revenues:	6,379,873	5,832,954	320,691	366,994	6,700,564	6,199,948	500,616
<b>Total revenues</b>	<b>10,368,725</b>	<b>9,839,766</b>	<b>598,311</b>	<b>637,846</b>	<b>10,967,036</b>	<b>10,477,612</b>	<b>489,424</b>
<b>Expenses</b>	<b>10,077,144</b>	<b>9,755,717</b>	<b>528,098</b>	<b>583,078</b>	<b>10,605,242</b>	<b>10,338,795</b>	<b>266,447</b>
<b>Increase in net assets before transfers</b>	<b>291,581</b>	<b>84,049</b>	<b>70,213</b>	<b>54,768</b>	<b>361,794</b>	<b>138,817</b>	<b>222,977</b>
Transfer in (out)	66,404	71,311	(66,404)	(71,311)	-	-	-
Change in net assets	357,985	155,360	3,809	(16,543)	361,794	138,817	-
Net assets - Oct 1, as adjusted	2,970,585	2,815,225	230,208	246,751	3,200,793	3,061,976	138,817
<b>Net assets - Sept 30</b>	<b>\$ 3,328,570</b>	<b>\$ 2,970,585</b>	<b>\$ 234,017</b>	<b>\$ 230,208</b>	<b>\$ 3,562,587</b>	<b>\$ 3,200,793</b>	<b>\$ 361,794</b>

- The decrease of \$160.7 million in operating grants and contributions was due primarily to decreases in federal grants (including Stimulus funding).
- General revenues increased by \$500.6 million mainly because of increases in property taxes, income and franchise taxes, and sales and use taxes.
- The increase of \$266.4 million in expenses was due mainly to increased spending in public works and governmental direction and support.
- Each year, the D.C. Lottery transfers substantially all of its net income to the District. In FY 2012, it transferred \$66.4 million of its income, to the District's general fund. The FY 2012 transfer was \$4.3 million more than the FY 2011 transfer of \$62.1 million.



## Governmental Funds

The focus of governmental funds is on major funds and not on fund types. Major funds are presented individually. Nonmajor governmental funds are combined in separate columns. The sources (revenues) and uses (expenditures) of resources, assigned through the financial planning and budgeting process, focus on the District's ability to finance operations in the short-term.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the District uses to keep track of specific sources of funding and spending for a particular purpose. District laws, bond covenants, and other legal stipulations establish funds for specific

purposes, and stipulate specific reporting requirements for the activities and public services accounted for in these funds. The District's funds are presented in three categories or groups:

- *Governmental Funds* report short-term activities and measure cash and other financial assets that can be readily converted to cash. Most basic services are accounted for in this fund category and are reported as General, Federal and Private Resources, Housing Production Trust Fund, General Capital Improvements, and Nonmajor Governmental Funds.



- *Proprietary Funds* are used to account for the District's business-type activities. These funds generate a significant portion of their revenues through user charges. The District recognizes two major proprietary funds: Lottery and Charitable Games; and Unemployment Compensation.
- *Fiduciary Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. These funds are presented separately from the District's other funds because these resources are not available to finance the operations of the government. The District is the trustee, or fiduciary, for its employees' pension plans and the 529 College Savings Plan.

### **Assets and Liabilities**

- Total assets of the governmental funds increased by \$300.8 million and total liabilities increased by \$95.5 million.

### **Operating Results**

- Revenues in the governmental funds increased by \$536.2 million. This was due mainly to increases in tax revenue totaling \$572.6 million, which were offset by declines in other categories of revenue.
- Expenditures of the governmental funds increased by \$154.8 million.
- Overall, total revenues and other financial sources exceeded total expenditures and other financing uses by \$205.3 million.

### **Fund Balance**

Fund balance is divided into five categories, *nonspendable*, *restricted*, *committed*, *assigned*, and *unassigned*. The **nonspendable fund balance** represents amounts which cannot be spent because they are not in spendable form or are not legally required to be maintained intact. **Restricted fund balance** may only be used in a

manner that is consistent with externally imposed constraints or laws; however, **committed fund balance** represents resources which can only be used for purposes as specified internally within the District government by the highest level of decision making authority (e.g., the Council.) **Assigned fund balance** represents resources that are neither restricted nor committed and is comprised of resources that have a stated or intended use as established by the Mayor, Council, or their authorized designees. **Unassigned fund balance** represents resources which cannot be logically classified in the other four categories. A positive **unassigned fund balance** represents resources available to fund subsequent years' activities.

The fund balance does not consist entirely of cash. Cash is only one of the assets that enter into the calculation of fund balance. Therefore, the fund balance may consist of cash and other resources or assets like receivables and inventories. In some cases, the composition of financial assets may be such that it is possible to have a large positive fund balance with little or no cash.

- Over the past sixteen years, the District's fund balance in the general fund increased from a negative balance of \$518 million in FY 1996 to a positive balance of \$1.5 billion in FY 2012, an increase of approximately \$2.0 billion.
- The General Fund's fund balance includes: a restricted emergency/contingency cash reserve fund (a congressionally mandated rainy day fund) of \$339.1 million; and a committed stabilization/cash flow reserve (a self imposed rainy day fund) of \$441.9 million. In addition, there is \$388.3 million in cash set aside for long term debt service and \$128.9 million set aside for specific programs and projects.

## Miscellaneous Statistics

	Last Two Fiscal Years	
	FY 2011	FY 2012
Number of police officers	3,801	3,907
Number of police patrol cars	1,195	1,196
Police crime index offenses	31,772	36,154
Number of fire fighters & EMS personnel	1,941	1,874
Number of fire & EMS stations	34	34
Total number of fire/rescue/medical incidents	161,795	167,939
Number of DCPS teachers	3,850	3,775
Number of DCPS students	48,737	45,191
Number of DCPS high school graduates	2,954	2,919
Number of UDC teachers	222	260
Number of UDC students	5,286	5,490
Number of UDC graduates	641	705
Miles of street resurfaced; regular cover; pavement restoration	14	17
Potholes repaired	6,863	262,333
Tons of snow removed	850,000	105,487
Convention Center conventions held	231	201
Convention Center attendees	1,017,638	1,159,480

## Outlook for FY 2013

The U.S. economy continued to slowly recover during FY 2012, and most forecasts anticipate that it will continue to moderately grow in FY 2013. D.C. revenues experienced a very strong 10% gain in FY 2012, but the outlook for FY 2013 is fairly uncertain. Job growth has been slowing, and policies that may be adopted to reduce federal deficits could adversely affect the incomes of District residents and other aspects of the District's tax base.

- The District's population continues to grow, demonstrating its growing attraction as a place to live.
- Federal government employment has begun to decline slowly, and decisions adopted for reducing the federal deficit could accelerate that decline and cut contract spending that also plays an important role in the District's economy.
- Private sector employment very recently has begun to increase more slowly in the District than in the metropolitan region or the nation as a whole; the biggest gains in DC are in the education and health sector.
- Despite the uncertainty surrounding federal fiscal policy, federal government expenditures continue to add some stability to the District's economy.
- Investments in economic development are attracting new retail establishments and influencing the development of "nightlife" in the downtown area.

## Glossary

<b>Assigned Fund Balance</b>	Resources neither restricted nor committed for which the government has a stated intended use as established by the Mayor, Council, or a body or official to which the Mayor or Council has delegated authority to assign amounts for specific purposes.
<b>Capital Assets</b>	Assets (infrastructure, land, buildings, equipment) used in operations that have initial useful lives extending beyond a fiscal year.
<b>Committed Fund Balance</b>	Resources which can only be used for specific purposes pursuant to limitations imposed by the government's highest level of decision-making authority. Amounts in this category may be used for other purposes if the government takes the appropriate action to "un-commit" and redirect the resources.
<b>Component Unit</b>	A legally separate organization for which the primary government is financially accountable and is included as part of its financial reporting entity.
<b>Comprehensive Annual Financial Report (CAFR)</b>	An annual report issued by state and local governmental entities. A CAFR has three major sections: introductory, financial and statistical.
<b>Debt Service</b>	Cash required in a given period, usually one year, for payment of interest and principal on outstanding debt.
<b>Fiscal Year</b>	A financial reporting period of twelve months. The District's fiscal year commences October 1 and ends September 30.
<b>Fund</b>	A separate fiscal and accounting entity used to segregate and account for resources related to a specific activity.
<b>Fund Balance</b>	The difference between what is owned (assets) and what is owed (liabilities) in a governmental fund.
<b>General Fund</b>	The chief operating fund of the government. This fund is used to account for all financial resources except those required to be accounted for in other funds.
<b>General Obligation Bonds</b>	These are uninsured general obligations. The full faith and credit of the issuer is pledged for the payment of the principal and interest on these bonds.
<b>Generally Accepted Accounting Principles (GAAP)</b>	The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements.
<b>Government-Wide Financial Statements</b>	Financial statements that report governmental activities and business-type activities rather than funds or fund types.
<b>Governmental Funds</b>	Funds generally used to account for tax-supported activities.
<b>Nonspendable Fund Balance</b>	Resources which cannot be spent because they are either: (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

## Glossary

### Rating Agencies

Independent sources of information and analysis for capital markets and debt instruments. These agencies are private and for profit entities that assist investors by providing rating and detailed research on credit factors. These factors determine the credit worthiness of municipalities, governments, and business entities.

The three primary Rating Agencies that rate municipal debt are: Fitch Ratings; Moody's Investors Service; and Standard & Poor's Rating Services.

The rating scale (shown to the right) represents a consistent framework for ranking and comparing the relative risks of different debt issues. Each agency has developed its own set of easily recognizable symbols to grade all debt consistently.

Explanation of municipal bond ratings	RATING SERVICE		
	<i>Fitch</i>	<i>Moody's</i>	<i>Standard &amp; Poor's</i>
Highest quality	AAA	Aaa	AAA
High quality	AA	Aa	AA
Upper medium grade	A	A	A
Medium grade	BBB	Baa	BBB
Predominantly speculative	BB	Ba	BB
Speculative, low grade	B	B	B
Poor to default	CCC	Caa	CCC
Highest speculation	CC	Ca	CC
Lowest quality, no interest	C	C	C
In default	DDD		DDD
In arrears	DD		DD
Questionable value	D		D

Fitch and Standard & Poor's may use + or – to modify some ratings. Moody's uses the numerical modifiers 1 (highest), 2, and 3 in the range from Aa1 through Ca3.

### Restricted Fund Balance

Resources with use-constraints which are: (a) externally imposed by creditors, grantors, or contributors or (b) imposed by law.

### Structural Imbalance

Represents the inability to levy taxes on federal real property and non-municipal tax exempt property while providing state-like services, such as human services, mental health, and education.

### Unassigned Fund Balance

Resources which cannot be classified in one of the other four categories: nonspendable, restricted, committed, or assigned.

### Unqualified or "Clean" Audit Opinion

An unqualified or "clean" audit opinion is a written report issued by an independent auditor which states that the financial statements for the government present fairly its financial position and results of operations.



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OCFO Office of the Chief Information Officer

YEAR ENDED SEPTEMBER 30, 2012