

# Government of the District of Columbia



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January 28, 2015

Mr. Jeffrey S. DeWitt  
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (District) for the fiscal year ended September 30, 2014, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with District management and the Office of the Chief Financial Officer (OCFO). To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the District.

This report has been prepared in accordance with generally accepted accounting principles (GAAP) for state and local governments as promulgated by the Governmental Accounting Standards Board (GASB) and includes all disclosures necessary for readers to gain an understanding of the District's financial activities.

The ability to produce a timely and accurate CAFR depends upon the adequacy of the District's internal controls. Internal control is defined as a process, effected by an entity's governing board, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) efficiency and effectiveness of operations; (b) reliability of financial reporting; and (c) compliance with applicable laws and regulations. Reasonable assurance is defined as a high, but not absolute, level of assurance about whether the financial statements are free of material misstatement. The District's management is responsible for establishing and maintaining adequate internal controls. The greatest challenge in establishing and maintaining adequate internal controls is ensuring that the control framework developed by management is comprehensive—that is, broad enough to achieve its intended purpose.

Due to certain inherent limitations, such as prohibitive costs, judgment errors, or potential for management override and collusion, internal control can only provide reasonable assurance that management's objectives will be achieved. However, routine periodic audits help management assess, on an on-going basis, the adequacy of the District's internal controls. In accordance with D.C. Code § 47-119, an independent auditor audited the District's financial statements for the year ended September 30, 2014. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In addition to issuing an opinion on the District's financial statements, the independent auditor, KPMG LLP, prepared a report, which was issued in conjunction with the CAFR, that discussed the auditor's consideration of the District's internal control over financial reporting and the outcome of the auditor's tests of the District's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other related requirements. This report is commonly referred to as the Yellow Book Report.

Moreover, an audit of compliance with the Federal Single Audit Act Amendments of 1996 and the related OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is also performed annually and a separate report, often referred to as the Single Audit Report, is issued by the independent auditors. The District's fiscal year 2014 Single Audit Report will be issued at a later date.

This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) and, therefore, does not discuss the District's financial operations and results, which are fully discussed in the MD&A. For that reason, this letter should be read in conjunction with the MD&A in order to gain a better understanding of the District's financial condition.

## PROFILE OF THE GOVERNMENT

### Overview: Historical Background of the District

President George Washington established Washington, D.C. (herein after referred to as D.C., the District of Columbia, or the District) in 1791 from territory ceded by the State of Maryland and the Commonwealth of Virginia. The United States Congress assumed jurisdiction over the District of Columbia, but citizens residing in the District of Columbia did not have voting representation in Congress.

Significant dates in the history of the District of Columbia are presented in the timeline shown in **Table T1**.

**Table T1 – Timeline: Key Dates in the History of the District of Columbia**

<b>February 1801</b>	Congress enacted the Organic Act of 1801, thereby dividing the capital district into Washington County (former Maryland area) and Alexandria County (former Virginia area).
<b>1846</b>	Congress passed a law allowing the City of Alexandria and Alexandria County to be returned to the Commonwealth of Virginia.
<b>1871</b>	Congress consolidated Georgetown, Washington City, and Washington County into one territorial government. The President appointed a territorial governor and council and an elected House of Delegates. A non-voting delegate to Congress was also established.
<b>1874</b>	The territorial government of the District of Columbia was abolished and the provision for a non-voting delegate to Congress was eliminated.
<b>1878</b>	The power to elect a territorial governor and council was eliminated. Congress established a three-member Board of Commissioners to govern the District of Columbia.
<b>1961</b>	The 23rd Amendment to the U.S. Constitution was ratified. Citizens of the District of Columbia were granted the right to vote in a presidential election.
<b>1967</b>	President Lyndon B. Johnson appointed Walter E. Washington Mayor of the District of Columbia.
<b>1970</b>	Congress passed the District of Columbia Delegate Act.
<b>1971</b>	Walter Fauntroy became the first Congressional Delegate to represent the District of Columbia.
<b>1973</b>	Congress passed the District of Columbia Home Rule Act, which provides for a popularly elected mayor and a 13-member Council.

Although Congress passed the Home Rule Act in 1973, Congress retained and continues to retain the right to review and overturn the legislative acts of the Council if both houses of Congress vote within 30 legislative days to do so. In addition, the budget for the District of Columbia government must be approved by Congress and the President of the United States.

The Home Rule Act prohibits the taxing of federal property, other tax-exempt property, and the income of non-District residents who work in the District.

In 1983, it was determined that the District could legally issue its own debt. On October 15, 1984, the District issued municipal debt for the first time, in the form of Tax Revenue Anticipation Notes (TRANs), which totaled \$150 million.

Although progress has been made on many fronts throughout the city's history, District of Columbia residents still do not have voting representation in Congress. However, in accordance with the District of Columbia Delegate Act of 1970, U.S. Public Law 91-405, the citizens of the District of Columbia are represented in the House of Representatives by a Delegate, who is elected by the voters of the District of Columbia. Consistent with the Act:

*The Delegate shall have a seat in the House of Representatives, with the right of debate, but not of voting, shall have all the privileges granted a Representative by § 6 of Article I of the Constitution, and shall be subject to the same restrictions and regulations as are imposed by law or rules on Representatives. The Delegate shall be elected to serve during each Congress.*

The current D.C. Delegate, Congresswoman Eleanor Holmes Norton, has no voting power. However, despite her voting limitations, she has been able to accomplish much on behalf of the District of Columbia. Some of her recent accomplishments include the following:

- During the federal government shutdown, worked on multiple fronts to help the District obtain the authority to use its local funds to remain open for all of fiscal year 2014 as part of a bill to reopen the federal government through January 15, 2014. With the passage of the bill, the District government was authorized to spend its local funds at the fiscal year 2014 level for the full fiscal year, while federal agencies were allowed to spend at fiscal year 2013 levels, and their authority to spend any funds ended when the continuing resolution expired on January 15, 2014.

Prior to the passage of the bill, the District government had remained operational by using reserve funds which had already been approved by Congress. The Mayor declared all District employees “essential,” which would allow them to continue working during the shutdown period.

- Introduced a bill to extend federal tax benefits for mass transit commutes, and to encourage commuters to use mass transit by equalizing tax benefits for mass transit and parking. As part of the “fiscal cliff” negotiations, Congress increased the commuter benefit amount to \$245, but this amount decreased to \$130 on December 31, 2013. The benefit for parking remained at \$245.
- Introduced the Restore Opportunity, Strengthen, and Improve the Economy (ROSIE) Act that provides workplace protections for federal contract workers. The ROSIE Act requires employers seeking federal contracts to demonstrate compliance with workplace protection laws, including laws governing labor relations, wages and hours, and health and safety laws. This Act incentivizes federal government contractors who support workers’ collective bargaining, pay living wages and benefits, stop wage theft, and avoid paying top executives excessive salaries.
- Succeeded in keeping an amendment out of the final National Defense Authorization Act for Fiscal Year 2014 that would have weakened D.C. gun safety laws. This amendment indicated that active duty military personnel in their private capacity should be exempt from the gun safety laws of the District of Columbia, but not those of any other state or locality.

For more information on the initiatives, activities and accomplishments of the D.C. Delegate, visit Congresswoman Eleanor Holmes Norton’s website at [www.norton.house.gov](http://www.norton.house.gov).

## Financial Reporting Entity

For financial reporting purposes, the District’s reporting entity consists of: (1) the primary government; (2) five discretely presented component units: Health Benefit Exchange Authority, Housing Finance Agency, Not-For-Profit Hospital Corporation (d/b/a United Medical Center), University of the District of Columbia, and Washington Convention and Sports Authority and; (3) one blended component unit, the Tobacco Settlement Financing Corporation. The District of Columbia Housing Authority and the District of Columbia Water and Sewer Authority are considered related organizations because the District is

not financially accountable for their operations. The funds and accounts of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or the component units have been included in the reporting entity. Further information on the reporting entity can be found in Note 1B, page 56 of the Notes to the Basic Financial Statements.

The District and its component units provide a wide range of services to residents, including elementary, secondary, and postsecondary education; health and human services; economic development and regulation; public safety; transportation; and other general government services.

## Budgetary Information

During the first quarter of each fiscal year, agencies begin the budget formulation process for the upcoming fiscal year. On or about March 20th of each year, consistent with Section 442 of the Home Rule Act, the Mayor submits a balanced operating budget for the upcoming fiscal year to the Council for review and approval. The Council holds public hearings and adopts the budget (including a multi-year capital improvement plan, by project, for all District agencies) through passage of a Budget Request Act. The Mayor may not submit and the Council may not adopt any budget which presents expenditures and other financing uses that exceed revenues and other financing sources. After the Mayor approves the adopted budget, it is forwarded to the President of the United States (the President) and then to Congress for approval. Congress enacts the District’s budget through passage of an appropriations bill, which is signed into law by the President.

The legally adopted budget is the annual Appropriations Act passed by Congress and signed by the President. The Appropriations Act authorizes expenditures at the agency level and by appropriation title (function), such as Public Safety and Justice; Human Support Services; or Public Education. To revise planned expenditures for any function, Congress must enact the appropriate legislation. However, the District may reallocate budgeted amounts using the District’s reprogramming process in accordance with applicable legal requirements.

The District utilizes budgetary controls designed to monitor compliance with expenditure limitations contained in the annual Appropriations Act. The District’s automated and manual transaction level controls and sound governance provide strong budgetary controls. The annual budget is assigned specific accounting attributes and is uploaded into the District’s accounting system of record, thereby establishing the budget authority for each entity within the District government. The budget authority established in the system of record is then reconciled to the

levels of funding authorized by the Appropriations Act. In addition, on an annual basis, independent auditors review the budgetary comparison statement to ensure compliance with federally approved amounts and to determine whether budget adjustments are properly documented and approved.

The “*District Anti-Deficiency Act of 2002*” (the Act), which became effective on April 4, 2003, introduced additional budgetary control requirements. This Act requires District managers to develop spending projections, by source of funds, on a monthly basis, which show year-to-date spending, approved budget, year-end projected spending, explanations of variances greater than 5% or \$1 million, and planned corrective actions for instances of overspending. Spending projections are required to be submitted to the agency head and the Agency Fiscal Officer. Summarized spending projections must be submitted to the District’s Chief Financial Officer (CFO) no later than 30 days after the end of each month.

Other reporting requirements have also been established to enhance the District’s budgetary control policies and practices. Consistent with D.C. Code § 47-355.04, agency heads and Agency Fiscal Officers are to submit jointly a monthly spending plan for the fiscal year to the District’s CFO by October 1st of each fiscal year. In addition, pursuant to D.C. Code § 47-355.05, the District’s CFO is to submit quarterly reports to the Council and the Mayor that present each agency’s actual expenditures, encumbrances, and commitments, each by source of funds, compared to each agency’s approved spending plan. This report is required to be accompanied by the District CFO’s observations regarding spending patterns and steps being taken to ensure that spending remains within the approved budget. These reports are used by the District’s Anti-Deficiency Review Board to assess cases of overspending.

In addition, the District uses encumbrance accounting as a means of strengthening budgetary controls and financial reporting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the accounting system of record in order to reserve the portion of the related appropriation that will be needed for the expenditure. Therefore, the recording of encumbrances is a valuable tool used by the District to ensure that expenditures are within budgeted amounts. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Fund, Special Revenue Fund, or the Federal and Private Resources Fund.

## **Fund Balance Reserves:**

### **Congressionally Mandated**

Through Congressional mandate, the District is required to maintain cash reserves totaling 6% of the previous fiscal year’s General Fund-Local expenditures less debt service cost. The 6% is comprised of a contingency cash reserve of 4% and an emergency cash reserve of 2%. The contingency cash reserve may be used to provide for nonrecurring or unforeseen needs (e.g., severe weather or other natural disasters, and unexpected obligations created by federal law) that arise during the fiscal year or to cover revenue shortfalls experienced by the District for three consecutive months. The emergency cash reserve may be used to provide for unanticipated and nonrecurring extraordinary needs of an emergency nature (e.g., natural disaster or calamity) and may be used in the event that the Mayor declares a State of Emergency in the District.

### **Mandated by the District**

#### Fiscal Stabilization Reserve

The fiscal stabilization reserve may be used by the Mayor for the same purposes for which the contingency reserve was established. However, this reserve may not be used for cash flow management purposes. At full funding, the fiscal stabilization reserve must equal 2.34% of the District’s General Fund operating expenditures for each fiscal year.

#### Cash Flow Reserve

The cash flow reserve may be used by the District’s CFO as needed to manage the District’s cash flow. When a portion of the reserve is used to meet cash flow needs, this reserve must be replenished in the same fiscal year the amounts were used. At full funding, the cash flow reserve must equal 8.33% of the General Fund operating budget for the current fiscal year.

## **District Accounting and Financial System**

### Accounting System

The District’s accounting system is organized and maintained on a fund basis. A fund is a separate, distinct accounting entity that has its own assets, liabilities, equity, revenues, and expenditures/expenses. The District uses U.S. generally accepted accounting principles (GAAP) when determining the types of funds to be established and is guided by the “minimum number of funds principle” and sound financial management practices when determining the number of funds within each fund type.

Measurement Focus and Basis of Accounting

The District's financial statements are prepared in accordance with GAAP. Accordingly, the measurement focus and basis of accounting applied in the preparation of government-wide financial statements and fund financial statements are as follows:

- The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting.
- Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting.
- Specialized accounting and reporting principles and practices apply to governmental funds. Proprietary funds, component units and pension trust funds are accounted for in the same manner as business enterprises.
- The budgetary basis of accounting is used to prepare the budgetary comparison statement presented in Exhibit 2-d found on page 47. This basis of accounting differs from the GAAP basis as described below:
  - **Basis Differences** - The District uses the purchase method for budgetary purposes and the consumption method for GAAP basis accounting for inventories. Under the purchase method, purchases of inventories are recognized as expenditures when the goods are received and the transaction is vouchered. Under the consumption method, an expenditure is recognized only when the inventory items are used rather than purchased.
  - **Entity Differences** - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis for reporting purposes. Such activities primarily include the following:
    1. Fund balance released from restrictions
    2. Proceeds from debt restructuring
    3. Accounts receivable allowance
    4. Operating surplus from enterprise funds
  - **Perspective Differences** - Perspective differences exist when the structure of financial information for budgetary purposes differs from the fund structure that is used to construct the basic financial statements. The District does not have any significant budgetary perspective differences

that limit its ability to present budgetary comparisons of its general fund. The District's *Budgetary Comparison Statement* is presented as part of the basic financial statements in Exhibit 2-d on page 47.

- **Timing Differences** - Timing differences can exist when there are significant variances between budgetary practices and GAAP, which may include continuing appropriations, project appropriations, automatic re-appropriations, and biennial budgeting. The District has no significant timing differences between its budgetary practices and its GAAP presentation of its financial statements.

**Transparency in Financial Reporting**

The OCFO continues to promote openness in government and transparency in financial reporting. Over the last decade, the District has opened its books to the public by posting online the annual operating budget and capital plan, the comprehensive annual financial report, and the popular annual financial report. In addition, the OCFO's website provides information that allows taxpayers to review and assess the District's financial status, programs, activities and services, and determine how their tax dollars are being used. This information includes: operating financial status reports; capital financial status reports; quarterly revenue estimates; monthly cash reports; monthly/annual economic indicators and other reports; Featured News (including press releases and Council Hearing written testimonies); and links to other useful information, such as the Taxpayer Service Center, the D.C. College Savings Plan, Unclaimed Property Division, and Invest in DC Bonds.

In addition, CFOInfo, a web-based interactive budget dashboard, presents data on the current year budget and actual expenditures as well as data for three succeeding fiscal years. CFOInfo also presents the proposed budget for the upcoming fiscal year. Users can view data in graphical or tabular format and may create comparisons and cross tabs for more detailed analyses. CFOInfo may be used to access data regarding operating budgets, special purpose revenue, federal grants, financial status year-to-date, and capital budgets.

**ECONOMIC CONDITION AND OUTLOOK**

Over the last several years, the rate of increase in employment within the District has slowed significantly, with gains in the private sector being barely able to offset public sector declines. Resident employment has also slowed. Population growth continues to be a major factor in increasing the District's income, property, and sales tax

bases. It is also a driving force behind rising home values. In the last four years (between 2010 and 2014), the District's population has grown by more than 53,000 residents, an increase that has averaged more than 1,100 residents per month over that period of time. In addition, developments in the national economy (such as continued economic growth, strong stock market gains, and low interest rates) have contributed to the District's growing tax base.

Approximately 25% of employed District residents work for the federal government. Federal civilian employment accounts for 28% of all wage and salary jobs located in the District and 32% of the wages and salaries that are generated in the city. Furthermore, federal contracting accounts for additional jobs and income in the area, which also contribute to the District's tax base. With such a dominant federal presence, significant changes in federal spending can have a major impact on the District's economy and revenues.

Pursuant to a law which became effective on March 1, 2013, all federal discretionary spending is subject to reduction. This measure, known as sequestration, requires across-the-board cuts to all defense and non-defense discretionary spending which began in FY 2013 and will continue throughout the remainder of the decade. Sequestration, along with other federal fiscal policy decisions regarding debt ceiling extensions, budget resolutions, and annual appropriations, can adversely affect the District's economy.

Congress has approved a budget that increases some federal spending. This budget tempers some of the uncertainty around federal fiscal policy through 2015. However, the budget agreement leaves in place much of the sequestration limits on federal spending through FY 2023. The budget agreement also leaves unresolved the most feasible approach for reducing federal debt.

Federal government expansion cushioned the District and metropolitan area economies from the worst effects of the national recession over the past several years. The federal government will no doubt continue to anchor the District's economy, but given the ongoing federal fiscal policy uncertainties, the federal government can no longer be counted on to be a source of significant growth.

#### Highlights: The District's Economy

Highlights of recent trends in the District's economy include slowing job growth, increases in population and a strong housing market as presented below:

- Job growth has picked up since the early summer. In the three months ended September 2014, there were 7,967 (1.1 percent) more wage and salary jobs located in the District than a year earlier. Of particular note,

there were 3,833 fewer federal government jobs in September than there were a year earlier, while the private sector jobs increased by 10,000 (2.0 percent).

- District resident employment in the three months ended September 2014 was 7,198 (2.1 percent) more than a year earlier.
- The September unemployment rate was 7.8 percent (seasonally adjusted), a decrease from the revised 8.6 percent a year ago.
- Wages earned in the District of Columbia grew 4.1 percent in the September 2014 quarter compared to the same quarter a year ago. D.C. personal income was 4.2 percent higher.
- Home sales and prices reflect a cooling of both single family sales and price appreciation. Single family sales for the three-months period ended September 2014 were down 3.9 percent from a year ago, and there was a 3.1 percent decrease in the average selling price. Condominium sales were down 6.1 percent, but the average price was 3.5 percent higher. The value of all home sale settled contracts for the three-month period ended September 2014 was 5.5 percent less than a year ago.
- Commercial office effective rents continued to edge downward over the past year. Leased space in September 2014 was up 0.8 percent from a year ago, while the vacancy rate rose slightly over the past year from 12.5 percent to 12.9 percent.
- Hotel room-days sold for the three months ended September 2014 were 7.1 percent above the prior year, and hotel room revenues were up by 16.2 percent. These large increases appear in part to reflect the government shut down that affected the prior calendar year.

### **Key Factors in the District's Economy**

#### Population

The U.S. Census Bureau estimated that there were 658,893 residents in the District of Columbia, as of July 1, 2014. This represents an increase of 9,782, or 1.5%, from the revised July 1, 2013 estimate of 649,111. Annual census estimates are based on birth and death records, changes in tax return filings, and estimates of the number of immigrants who move into the District each year. **Chart T1** presents the District's population trends for calendar years 2010 through 2014.



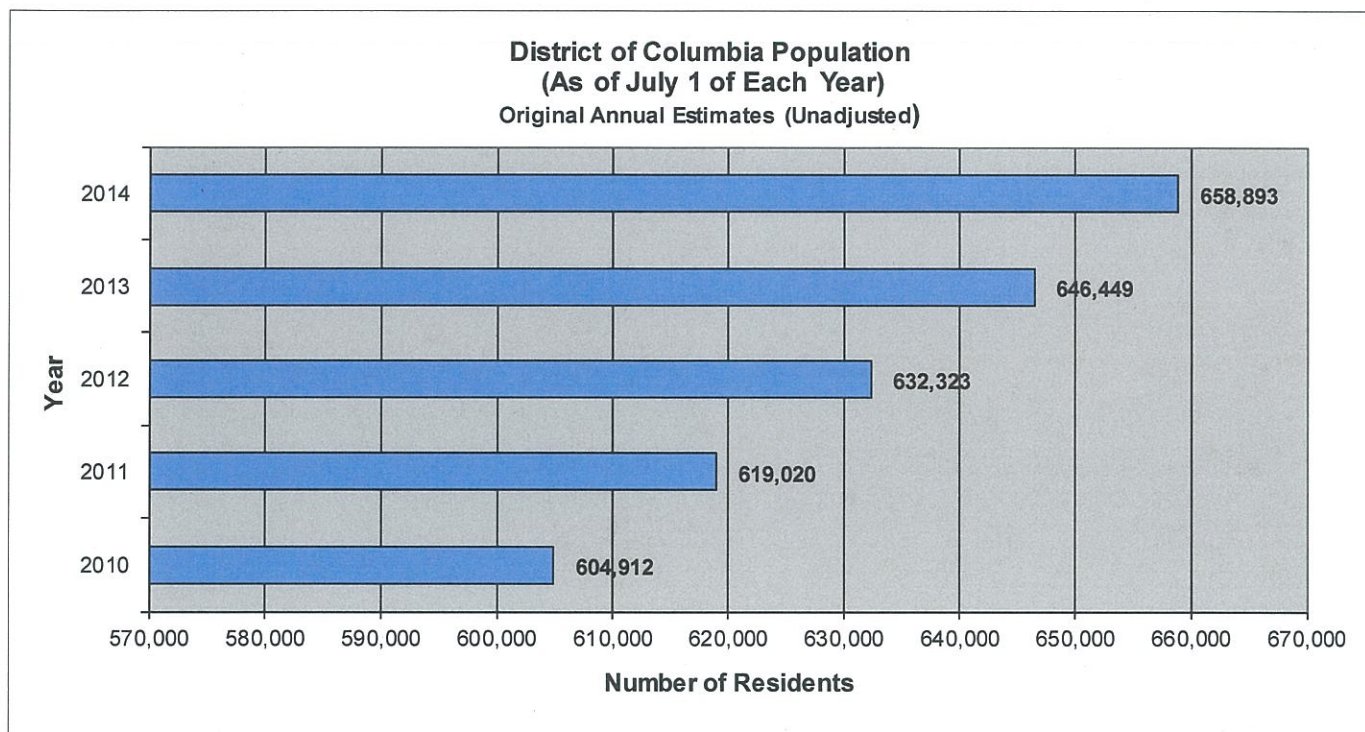
### Income Trends

Income has grown considerably in the District in recent years. From the third quarter of 2009 to the third quarter of 2014, personal income grew approximately 27.4% in the District as compared to 22.7% nationally.

The distribution of income in the District differs from that of the nation as a whole, with larger portions of District residents being in the higher and lower income brackets and a significantly smaller portion being within the middle

income levels. Median household income data is not yet available for 2014; however, for the two-year period 2012 and 2013, the District's median household income of \$63,435 was 22.3% above the U.S. average. The Census Bureau estimates that 18.6% of the District's population was below the poverty line in 2013 as compared to 15.4% for all of the U.S.

**Chart T1 – Population Trends (2010 – 2014)**



Source: U.S. Census Bureau

### Employment Trends

Total wage and salary employment in the Washington metropolitan area increased to approximately 3,091,100 in fiscal year 2014 from the revised 3,080,400 for fiscal year 2013, representing a 0.35% increase. These numbers exclude the self-employed, domestic workers, military and foreign government personnel, which represent a significant portion of the total workforce of the region. Some of the references to the 2013 employment numbers may differ from those presented in the fiscal year 2013 CAFR because of updates and revisions. **Table T2** presents 2014 labor market data for the District and the metropolitan region.

Total wage and salary employment within the District increased slightly to 24.4% of the metropolitan area's total

wage and salary employment. The seasonally adjusted September 2014 unemployment rate in the District was 7.8%, compared to the September 2013 seasonally adjusted rate of 8.6%.

Total employment within the District increased to 754,400 as of September 2014 from the revised 743,500 as of September 2013. As the nation's capital, Washington, D.C. is the seat of the federal government and headquarters for most federal departments and agencies. The total September 2014 federal workforce in the Washington metropolitan area was 365,500; with approximately 200,900 federal employees located in Washington, D.C. and 164,600 additional federal employees who worked elsewhere in the Washington metropolitan area.

Minimum Wage Rate

Historically, District law has required 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 and has not been revised since that time. Therefore, effective July 24, 2009, the District's minimum wage rate increased to \$8.25 per hour.

In December 2013, the Council approved a measure to raise the District's minimum wage limit to \$11.50 per hour over three years as follows: \$9.50 per hour, effective July 1, 2014; \$10.50 per hour, effective July 1, 2015; and \$11.50 per hour, effective July 1, 2016. In January 2014, the Mayor signed the associated bill into law. Consequently, beginning in July 2014, the District's minimum wage limit increased to \$9.50 per hour.

**Table T2– 2014 Labor Market Data for the District and Surrounding Metropolitan Area**

**Labor Market (000s): FY 2014**

Item	District of Columbia			Metropolitan Area		
	Level	1 yr. change (number)	1 yr. change (%)	Level	1 yr. change (number)	1 yr. change (%)
Employed residents	349.3	10.9	3.2	3,052.1	12.4	0.4
Labor force	379.0	10.7	2.9	3,214.2	3.8	0.1
Total wage and salary employment	754.4	6.5	0.9	3,091.1	10.7	0.3
Federal government	200.9	-3.6	-1.8	365.5	-6.7	-1.8
Local government	36.2	1.9	5.5	319.5	6.5	2.1
Leisure & hospitality	70.5	1.8	2.6	302.7	8.5	2.9
Trade	26.3	1.4	5.6	332.0	4.8	1.5
Education and health	128.1	1.9	1.5	393.5	-3.2	-0.8
Prof., bus., and other services	226.9	2.7	1.2	891.8	-1.2	-0.1
Other private	65.5	0.4	0.6	486.1	2.0	0.4
Unemployed	29.7	-0.2	-0.7	162.1	-8.7	-5.1
New Unemployment Claims	1.5	-0.4	-19.2	(a)	(a)	(a)

Sources: U.S. Bureau of Labor Statistics (BLS) & D.C. Dept. of Employment Services (DOES)

All data are monthly averages for the fiscal year and are preliminary, not seasonally adjusted.

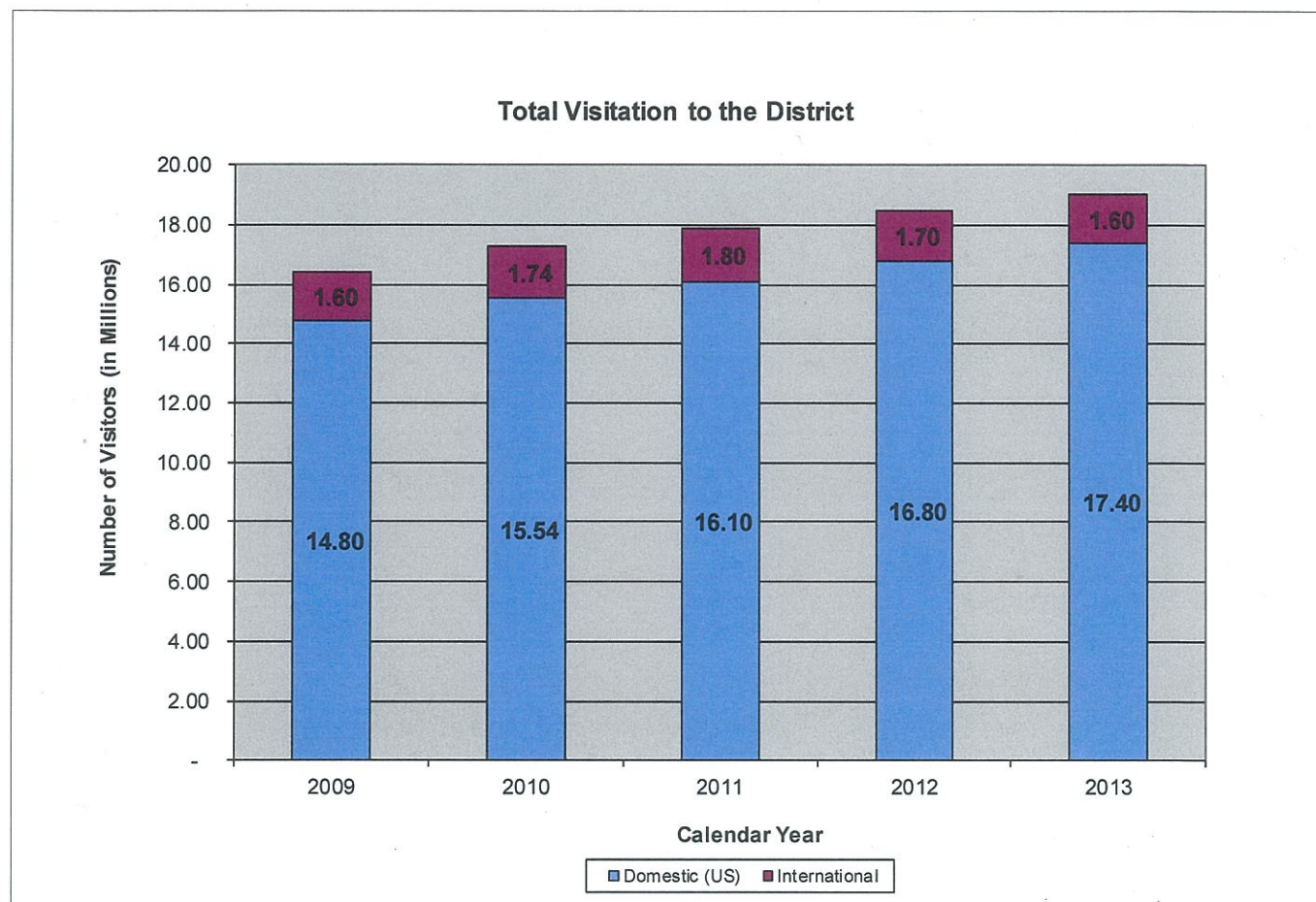
(a) Unemployment claims for metropolitan area not available

Tourism and Hospitality

Millions of U.S. citizens and international tourists visit the District's more than 400 museums and other historical landmarks each year. Popular attractions include sites along the National Mall, numerous monuments to U.S. presidents, war memorials, and other museums. The presence of a large number of foreign embassies, recognized diplomatic missions, and other international organizations in the District helps to boost tourism. In calendar year 2013, approximately 17.4 million domestic visitors and 1.6 million international visitors traveled to the District. During calendar year 2013, the District was the eighth most visited destination in the U.S. for international travelers. **Chart T2** presents the trends in tourism for calendar years 2009 through 2013. Tourism data for calendar year 2014 is not yet available.

Visitor spending, which totaled approximately \$6.69 billion in 2013, generated additional business activity in related industries (e.g., hotel, restaurant, and retail) and continues to help sustain the local and regional economies. The distribution of visitor spending in 2013 (by category) was as follows: \$2.28 billion for Lodging; \$1.87 billion for Food and Beverage; \$1.12 billion for Entertainment; \$817 million for Shopping/Retail; and \$601 million for Transportation. Total visitor spending increased by \$48 million, or 7.7%, over the prior year. Hotel occupancy was approximately 80.7% at September 30, 2014. Travel and tourism supported 75,741 jobs in the District, generating approximately \$3.65 billion in wages.



**Chart T2 – Trends in District Tourism (2009 – 2013)**

Source: Data compiled by Destination DC (formerly the Washington Convention and Tourism Corporation)

### Construction - Commercial Real Estate

Construction of commercial real estate slowed during calendar year 2014. At September 30, 2014, commercial space under construction in the District totaled 1.27 million square feet as compared to 2.42 million square feet at the end of September 2013. Over the one-year period between 2013 and 2014, leased commercial office space increased from 93.72 million square feet to 94.20 million square feet and the vacancy rate (including sublet) within the District decreased from 14.2% at the end of 2013 to 12.9% at the end of 2014.

### Construction – Housing Units

For the 12-month period ended September 30, 2014, 4,467 housing unit building permits were issued. This represents a 15.9% increase over the prior 12-month period. **Table T3** presents the number of apartment units located in the District in 2010 through 2014.

In calendar year 2014, there were 98,610 apartment units in the District, of which 91,356, or 92.6%, were occupied. It is anticipated that approximately 1,946 new apartment units will be added to the inventory between calendar years 2014 and 2015, and occupancy will grow by 1,882 units.

**Table T3 - District Apartment Units (2010 – 2014)**

	2010	2011	2012	2013	2014
Inventory	88,360	88,817	90,688	93,333	98,610
Occupied Units	83,477	84,632	86,737	88,377	91,356

Note: Prior years' data has been revised

## THE DISTRICT'S BOND RATINGS

Rating agencies assess the credit quality of municipal issuers and assign credit rating to issuers based on the outcome of their assessments. Consequently, rating agencies provide vital information to investors regarding the relative risks associated with rated bond issues. Attaining an acceptable credit rating is important to an issuer because it allows the issuer to more easily access the market and reduce borrowing cost.

The three primary agencies that rate municipal debt are: (1) Fitch Ratings; (2) Moody's Investors Service; and (3) Standard & Poor's Rating Service. The District's ratings for its bonds have remained high over the last several years. **Table T4** presents the District's ratings for the past five years for its General Obligation Bonds and Income Tax Secured Revenue Bonds. Fitch Ratings and Standard & Poor's upgraded the District's General Obligation Bonds from AA- to AA in September of 2014.

## LONG-TERM FINANCIAL PLANNING

As a result of improved financial management practices over the years, the District has been able to develop and operate within more disciplined budgets and address issues faced during the most challenging economic times. Accordingly, District officials have developed and implemented a plan for maintaining a strong, stable financial environment, which includes: developing a five-year operating financial plan and a six-year capital improvements plan; monitoring and analyzing the District's quarterly revenue estimates and making spending adjustments throughout the year, as necessary; identifying sound measures to enhance revenue streams; and developing and implementing plans to minimize costs without sacrificing essential programs or services.

**Table T4 – Bond Rating History (Last Five Fiscal Years)**

	General Obligation Bonds				
	2010	2011	2012	2013	2014
Fitch Ratings	AA-	AA-	AA-	AA-	AA
Moody's Investors Service	Aa2	Aa2	Aa2	Aa2	Aa2
Standard & Poor's Rating Service	A+	A+	A+	AA-	AA

	Income Tax Secured Revenue Bonds				
	2010	2011	2012	2013	2014
Fitch Ratings	AA+	AA+	AA+	AA+	AA+
Moody's Investors Service	Aa1	Aa1	Aa1	Aa1	Aa1
Standard & Poor's Rating Service	AAA	AAA	AAA	AAA	AAA

## MAJOR INITIATIVES

Many initiatives and projects have been completed, are in progress, or have been planned which will help sustain the District's economy and produce strong financial results. Several of the District's major initiatives and projects are presented in **Tables T5 and T6**.

**Table T5 – Top Projects Completed (by Economic Sector)**

Project	Location	Square Footage/Units	Estimated Value (in \$000s)	Delivery Date
<b>Retail:</b>				
The Shops at Georgetown Park	3222 M Street, N.W.	330,000	\$ 32,000	4th Qtr 2013
CityCenter DC	9th, 10th, 11th, H, & I Streets, N.W.	185,000	\$ 700,000	4th Qtr 2013
Walmart on Georgia Avenue	5929 Georgia Avenue, N.W.	106,000	Not Provided	4th Qtr 2013
Cathedral Commons	3336 & 3400-3430 Wisconsin Avenue, N.W.	125,000	\$ 130,000	3rd Qtr 2014
<b>Office:</b>				
CityCenter DC	9th, 10th, 11th, H, & I Streets, N.W.	515,000	\$ 700,000	4th Qtr 2013
GSA Headquarters (Phase I)	1800 F Street, N.W.	387,824	\$ 161,000	4th Qtr 2013
Sentinel Square (Phase II)	1050 1st Street, N.E.	265,480	\$ 110,000	4th Qtr 2013
Association of American Medical Colleges	655 K Street, N.W.	273,200	\$ 115,000	2nd Qtr 2014
<b>Residential:</b>				
CityCenter DC	9th, 10th, 11th, H, & I Streets, N.W.	674 units	\$ 700,000	4th Qtr 2013
Monroe Street Market	700-800 blocks of Monroe Street, N.E.	562 units	\$ 150,000	4th Qtr 2013
City Market at O Street	1400 7th Street, N.W.	497 units	\$ 300,000	4th Qtr 2013
Elevation at Washington Gateway	100 Florida Avenue, N.E.	400 units	\$ 130,000	3rd Qtr 2014
<b>Hospitality:</b>				
Hilton Garden Inn	2201 M Street, N.W.	238 rooms	\$ 33,000	1st Qtr 2014
Convention Center Hotel (Marriott Marquis)	901 Massachusetts Avenue, N.W.	1,175 rooms	\$ 520,000	2nd Qtr 2014
City Market at O Street (Cambria Suites)	1400 7th Street, N.W.	182 rooms	\$ 280,000	2nd Qtr 2014
<b>Education and Medical:</b>				
Ballou Senior High School	3401 4th Street, S.E.	365,000	\$ 130,000	3rd Qtr 2014
KIPP	1375 Mount Olivet Road, N.E.	100,000	\$ 25,000	3rd Qtr 2014

Table T6 – Projects Under Construction

Project	Location	Retail Square Footage/Units	Estimated Value (in \$000s)	Estimated Delivery Date
<b>Retail:</b>				
Fort Totten Square	South Dakota Avenue & Riggs Road, N.E.	130,000	\$ 120,000	2nd Qtr 2015
<b>Office:</b>				
601 Massachusetts Avenue	601 Massachusetts Avenue, N.W.	460,500	\$ 150,000	4th Qtr 2015
U.S. Department of Homeland Security Headquarters	St. Elizabeth's West Campus	1,180,000 (Phase I)	\$ 3,400,000	2026
<b>Residential:</b>				
Park Chelsea	880 New Jersey Avenue, S.E.	432 units	\$ 150,000	1st Qtr 2015
Capitol Place	777 2nd Street, N.E.	375 units	\$ 190,000	1st Qtr 2015
Fort Totten Square	South Dakota Avenue & Riggs Road, N.E.	345 units	\$ 120,000	2nd Qtr 2015
<b>Hospitality:</b>				
National Museum of African-American History & Culture	The National Mall	350,000	\$ 309,000	4th Qtr 2015
Trump International Hotel, The Old Post Office	1100 Pennsylvania Avenue, N.W.	270 rooms	\$ 200,000	2016
The Wharf (Phase I)	Southwest Waterfront	683 rooms	\$ 1,500,000	2017
<b>Education and Medical:</b>				
UDC Student Center	4200 Connecticut Avenue, N.W.	87,000	\$ 40,000	2015
New Sibley	5255 Loughboro Road, N.W.	439,000	\$ 200,000	3rd Qtr 2016

**Office and Hospitality Projects:**

- **The Wharf – Washington, D.C. Waterfront**

The Wharf is a \$2 billion mixed-use development project that is under way on the Washington, D.C. waterfront. This project is one of the region's largest redevelopment opportunities and will transform the underutilized Southwest Waterfront into an urban destination that mixes maritime activity and commerce with culture and housing with easy walking distance to the National Mall.

The Wharf site is comprised of 24 acres, with a total of 3.2 million square feet of buildable area along one mile of the historic Washington Channel. The development plan includes building new restaurants, shops, condominiums, hotels, high-quality entertainment venues, marinas, a waterfront park, and an expanded riverfront promenade with public access to the water. The waterfront area will be bike and pedestrian-friendly and is expected to become a commercial anchor for the community and those who visit the nation's capital's monuments and museums.

Construction at The Wharf began in 2014 and the first phase is projected to open in 2017. Phase I, with a building area of more than 1.9 million square feet, is expected to cost about \$775 million and will include: 620 apartments; 290 condominiums; 175,000 square feet of retail; an 11-story office building; and three

hotels, including a 268-room InterContinental Hotel. Phase I will also include 20 bars, restaurants, and cafes, a movie theater, and a 6,000 seat concert hall.

- **Trump International Hotel, Washington, D.C. (The Old Post Office)**

The Old Post Office Pavilion is a historic building located at 1100 Pennsylvania Avenue, N.W. in Washington, D.C. Completed in 1899, it was used as the city's main post office until 1914. Since that time, the building has been used primarily as office space for several government agencies. Major renovations occurred in 1976 and 1983. The 1983 renovation added a food court and retail space and an addition to the building was built in 1991.

In March 2011, the U.S. General Services Administration (GSA) issued a request for proposals for the redevelopment of the property. In February 2012, Trump Hotel Collection was selected by GSA as the developer of The Old Post Office. In 2013, GSA leased the property to The Trump Organization for 60 years. The leased property will be developed into a luxury hotel to be named The Trump International Hotel, Washington, D.C.

Trump International Hotel, Washington, D.C. will feature 270 richly furnished guestrooms, averaging more than 600 square feet, with lofty 16-foot ceilings, soaring windows, restored historic millwork, and

glittering crystal sconces and chandeliers. In addition, two Presidential Suites will be located in the historic former offices of the Postmaster General. At 3,500 and 5,000 square feet, the three-bedroom suites will be among the largest in the country. The suites will feature: an oversized master bedroom suite with windows on three exposures offering views of the U.S. Capitol and the Washington Monument; a formal dining room with original fireplace; a pantry/kitchen for use during extended stays; a service entry; walk-in closets; exercise room; and a shower and steam-room.

Trump International Hotel, Washington, D.C. will offer a total of 36,000 square feet of meeting and event space, including an opulent 13,000-square-foot Grand Ballroom. The Grand Ballroom will include classical motifs with European influences and will be suited for a variety of meetings, conferences, weddings, and social events.

The 11<sup>th</sup> Street entrance on Pennsylvania Avenue will be reinstated to serve as the driveway to the hotel's canopied grand entrance. The property's ground level will include world-class restaurants and luxury retailers located at both corners of the building on Pennsylvania Avenue. Guests of the hotel will also experience a 5,000 square-foot super luxury spa and state-of-the-art fitness center.

The transformation of The Old Post Office is scheduled to be completed in 2016.

- **D.C. United Soccer Stadium:**

The Council of the District of Columbia has approved the use of public funds to help build a 20,000 to 25,000-seat stadium for Major League Soccer's D.C. United. This world-class soccer stadium is to be located in the Buzzard Point area of Southwest D.C., adjacent to the Fort McNair Army base, bounded by Half Street and Second Street, S.W.

Approximately \$140 million in District funding for the stadium project has been approved, comprised of \$33 million in shifts from other projects and \$106 million in new borrowing. This funding is intended to cover roughly \$89 million in land acquisition costs, plus \$46 million in costs to clear the stadium site and prepare the necessary infrastructure. Also included are \$4.5 million in community benefits, most of which is for the establishment of a Circulator bus route in the area. The public cost for the land and infrastructure is capped at \$150 million; however, the latest estimate of such costs is \$133 million. The team's owners are to finance the construction of the stadium. The total investment for the project (infrastructure and construction) is estimated to be \$300 million.

The stadium is expected to open for the 2017 Major League Soccer season.

- **U.S. Department of Homeland Security Headquarters (St. Elizabeth's West Campus)**

In September 2009, the U.S. Department of Homeland Security (DHS) and the U.S. General Services Administration broke ground on the \$3.4 billion consolidated DHS headquarters, on the west campus of the old St. Elizabeth's Hospital. The first phase of this project was the new energy-efficient, 1.18 million square foot Coast Guard headquarters facility. The U.S. Coast Guard began moving into its new headquarters in August 2013 and completed the relocation from the old Buzzards Point facility by the end of calendar year 2013. The new headquarters facility houses approximately 3,700 Coast Guard employees.

The planned DHS consolidated headquarters will house approximately 14,000 employees working in the following DHS components: Transportation Security Administration, Customs and Border Protection, Immigration and Customs Enforcement, and the Federal Emergency Management Administration. Construction of the massive centralized headquarters is more than \$1.5 billion over budget. As originally planned, the complex was to be completed in 2014; however, funding shortfalls and other problems have pushed the estimated completion date back to 2026. Nonetheless, efforts are underway to secure funding to complete a second building to house the DHS Secretary and top staffers, along with a highway interchange needed to prevent traffic to/from the complex from overwhelming the nearby Congress Heights and Anacostia neighborhoods.

#### **Transportation Projects:**

- **D.C. Streetcar:**

The District plans to build a \$1.5 billion network of eight streetcar lines throughout the city by 2020, providing transit links in areas currently lacking Metrorail access. Construction on the project began in 2008. The first line will be along H Street/Benning Road in the Northeast area of the District.

The District owns six streetcars that will ultimately serve the system. These streetcars were built by two manufacturers to very similar designs. The District purchased its first "modern streetcars" in late 2009. The first three streetcars were built in the Czech Republic by Inekon Trams in 2007. The second set of streetcars was built in the United States in 2013 by United Streetcar of Oregon.

The streetcars are approximately eight feet wide and approximately 66 feet long, about 10 inches narrower than,



and one-third the length of, a light rail double car train. The modern streetcars are able to operate in mixed traffic and can easily accommodate existing curbside parking and loading.

Approximately 80% of the construction for the H Street/Benning Road line was completed in 2011 as part of the Great Streets project. The remaining 20% of the work began in December 2012 and has since been completed. After constructing the streetcar turnarounds and the car barn training center, installing poles, overhead wires and tracks, and completing the final roadwork for the turnarounds, the testing and commissioning process began. Testing and commissioning ensures that the streetcars are safe for the public and that drivers are trained and experienced before service begins. This process also helps in preparing for certification for operation by the Federal Transit Administration. As of November 2014, streetcars continued to mimic service without actually carrying passengers in order to prepare for full operations on the H Street/Benning Road line.

It is anticipated that the H Street/Benning Road line will open for full service to passengers in early 2015. Additional information on this line and other planned streetcar lines within the District may be obtained from the District Department of Transportation, 55 M Street, S.E., Suite 400, Washington, D.C. 20003 or by visiting the following website: <http://ddot.dc.gov>.

- **Capital Bikeshare:**

In September 2010, the District launched Capital Bikeshare, a regional bike sharing network which now includes over 2,500 bicycles throughout the District; Arlington, and Alexandria, Virginia; and Montgomery County, Maryland. Bikes are docked at bike stations where they remain locked to racks until a Capital Bikeshare member releases one for use. Anyone can become a Bikeshare member by paying the following fees: for 24 hours, \$7; for 3 days, \$15; one month, \$25; or for a full year, \$75. An annual membership which will be paid in monthly installments costs \$84 (\$7 per month.)

Members who sign up for longer than a day receive palm-size bar-coded cards. These cards are slipped into a slot to release a bike. The first 30 minutes of each ride are free, after which an additional fee consistent with the Capital Bikeshare fee schedule is assessed.

For more information on Capital Bikeshare, including membership and fees, visit: <http://capitalbikeshare.com>.

The District has also implemented projects and initiatives that focus on protecting the environment. One such initiative is described more fully below:

- **Anacostia River Clean Up and Protection Fund/ Carryout Bag Fees:** During fiscal year 2010, the District established the Anacostia River Clean Up and Protection Fund, which is to be used solely to fund efforts to clean and protect the Anacostia River and the other impaired waterways.

In January 2010, to help fund such efforts, the District began levying a five-cent “bag tax” on District consumers. A consumer making a purchase from a retail establishment within the District must pay, at the time of purchase, a fee of five cents for each disposable carryout bag he or she receives. During fiscal year 2014, the District collected approximately \$2.1 million in bag taxes. Since the inception of the tax in 2010, the District has collected more than \$9.4 million in such taxes.

The District makes every effort to implement initiatives that will enhance the quality of services to District residents and the general public. Over the last several years, the District has introduced numerous innovative initiatives to improve service delivery, some of which included the following:

- **Electronic Payment of Taxi Fares:** With the passage of the Taxicab Service Improvement Act of 2012, the District’s taxicab fleet was required to be modernized by making vehicle and equipment improvements, which included a meter system that facilitates non-cash payment of taxicab fares, through the use of credit cards, debit cards, and other generally acceptable means of purchasing goods and services. The meter system was required to also allow the automatic printing of receipts for passengers. Such meters are designed to collect trip-sheet data and produce electronic manifests for drivers through the use of GPS technology. In addition, taxicab modernization also includes smart phone applications that will open up new links between passengers and drivers.

Installation of the new payment system began on June 1, 2013. Beginning on September 1, 2013, each taxicab is required to operate only with a modern taximeter system. All taximeter systems were required to include a passenger console not later than December 1, 2013. By June 1, 2014, a safety feature was to be added to all taximeter systems that allows a passenger to send a real-time notification to the Office of Unified Communications that he or she is reporting a threat to his or her safety.

- **DC311 Smartphone App:** In April 2012, the District launched the DC311 free Smartphone App, which may be used by residents to report up to 80 different common, non-emergency quality-of-life issues, such as potholes, graffiti, downed trees, and streetlight

outages. The DC311 App may also be used to upload pictures and track the status of requests made. In addition, a mapping function may be used to determine where requests have been made.

The DC311 Smartphone App, together with the Citywide Call Center and 311 Online, offer ways by which the community can report non-emergency problems that need to be rectified. Information from each of these sources is funneled into one centralized database for monitoring and resolution.

- **Pay-By-Phone Parking:** The Pay-By-Phone Parking initiative, designed to make parking in the District more convenient, was implemented in fiscal year 2011.

The District Department of Transportation rolled out the pay-by-phone parking program on a District-wide basis to enable residents, workers, and visitors to use their mobile telephones to pay for parking at all of the District's approximately 17,000 on-street metered spaces. Pay-by-phone parking gives drivers another convenient payment option. Instead of feeding cash or a credit card into a meter, transactions may be completed by telephone, on the Internet, or by using a mobile application ("app") (available for the iPhone, Android, and Blackberry).

Additional information about these and other initiatives within the District may be obtained from the following:

- **Office of the Deputy Mayor for Planning & Economic Development**  
John A. Wilson Building  
1350 Pennsylvania Avenue, N.W., Suite 317  
Washington, D.C. 20004  
Telephone: (202) 727-6365  
Website: <http://dmped.dc.gov>
- **District Department of Transportation**  
55 M Street, S.E., Suite 400  
Washington, D.C. 20003  
Telephone: (202) 673-6813  
Website: <http://ddot.dc.gov>
- **Office of Planning**  
1100 Fourth Street, S.W., Suite E650  
Washington, D.C. 20024  
Telephone: (202) 442-7600  
Website: <http://planning.dc.gov>
- **Department of Parks and Recreation**  
1250 U Street, N.W.  
Washington, D.C. 20009  
Telephone: (202) 673-7647  
Website: <http://dpr.dc.gov>

- **Department of General Services**  
2000 14<sup>th</sup> Street, N.W., 8<sup>th</sup> Floor  
Washington, D.C. 20009  
Telephone: (202) 727-2800  
Website: <http://dgs.dc.gov>
- **U.S. General Services Administration**  
1800 F Street, N.W.  
Washington, D.C. 20405  
Telephone: (202) 501-0705  
Website: <http://www.gsa.gov>

## AWARDS AND ACKNOWLEDGMENTS

### Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District of Columbia for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2013. The District has received this award for 30 of the last 32 years. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that the fiscal year 2014 CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District also earned an award from GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the fiscal year ended September 30, 2013, for the eleventh consecutive year. The PAFR presents the District's financial results in a format and language that allows information to be more easily understood by the general public. The PAFR is not required to present the same level of detail as the CAFR. It contains very few financial statements, less technical language, and more graphics and photographs.

Like the Certificate of Achievement, the Award for Popular Annual Financial Reporting is valid for one year only. The District expects that the fiscal year 2014 PAFR, which will be issued within 30 days after the CAFR is completed, will conform to the Award for Popular Annual Financial Reporting Program requirements. It will also be submitted to the GFOA to determine its eligibility for another award.

## Acknowledgments

I would like to thank the District's accounting/finance staff who worked diligently to account for and report on the District's business activities and maintain the city's official "books" of accounting records. I greatly appreciate their efforts, which contribute significantly to the timely preparation of the CAFR. I want to thank my immediate staff, *Diji Omisore, Cassandra Alexander, Tong Yu, David Pivec, Wilma Matthias, Chris LaCour, Vanessa Jackson*, and their respective teams. I am grateful for their dedicated efforts. I would also like to thank the Office of the Inspector General, and the District's independent auditors, KPMG LLP, assisted by Bert Smith & Company, for their efforts throughout the audit engagement.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bill Slack", with a stylized flourish at the end.

Bill Slack  
Deputy Chief Financial Officer  
Financial Operations and Systems