

Government of the District of Columbia



Office of the Chief Financial Officer Office of Financial Operations and Systems

1100 4th Street, S.W., 8th Floor
Washington, DC 20024
(202) 442-8200
(Fax) (202) 442-8201

January 27, 2016

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, 2015, 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 U.S. 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, independent public accountants audited the District's financial statements for the year ended September 30, 2015. 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 public accountants, SB & Company, LLC, 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 public accountants. The District's fiscal year 2015 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

February 1801	Congress enacted the Organic Act of 1801, thereby dividing the capital district into Washington County (former Maryland area) and Alexandria County (former Virginia area).
1846	Congress passed a law allowing the City of Alexandria and Alexandria County to be returned to the Commonwealth of Virginia.
1871	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.
1874	The territorial government of the District of Columbia was abolished and the provision for a non-voting delegate to Congress was eliminated.
1878	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.
1961	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.
1967	President Lyndon B. Johnson appointed Walter E. Washington Mayor of the District of Columbia.
1970	Congress passed the District of Columbia Delegate Act.
1971	Walter Fauntroy became the first Congressional Delegate to represent the District of Columbia.
1973	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:

- Introduced a bill that would permanently allow the District government to spend its local funds at the start of each fiscal year, thereby, preventing District government shutdowns if Congress does not sign the District’s appropriations bill into law. Congresswoman Norton has continuously worked on multiple fronts, which proved to be successful in preventing shutdown of the District government during the federal government shutdown of 2013 and exempting the District government from shutdowns in fiscal years 2015 and 2016. Prior to the passage of the associated shutdown exemption bills, the District had to prepare shutdown contingency plans and

consistent threats of shutdowns harmed the credit rating of the District government. A permanent shutdown exemption would give D.C. an essential element of budget autonomy and statehood.

- Introduced the District of Columbia National Guard Home Rule Act to give the District home-rule authority over the D.C. National Guard and strengthen the Guard itself. The District of Columbia National Guard Home Rule Act would extend to the Mayor of the District of Columbia the same level of authority that governors have in their states over their Guards with respect to administration of the National Guard and deployment of the D.C. National Guard during local emergencies. Such emergencies may include natural disasters and civil disturbances unrelated to national or homeland security. Deployment of the D.C. National Guard would occur after consultation with the Commanding General of the D.C. National Guard. Currently, only the President and the Commanding General of the D.C. National Guard have the authority to deploy the D.C. National Guard for national and local purposes, respectively.
- Introduced the Federal Employee Short-Term Disability Insurance Act of 2015 to offer voluntary insurance to Federal employees for protection against the loss of pay resulting from: 1) short-term injury or disability; 2) short-term leave taken for the purpose of caring for a family member; 3) the birth of a child of such an employee; or 4) making arrangements to adopt a child or to become a foster parent. If federal employees elect to purchase the short-term insurance, the disability insurance benefits would replace a portion of their lost income for up to one year. In addition, the bill requires participating insurance companies to cover employees regardless of pre-existing conditions.

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.

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 (t/a Events DC) 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 58 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; human support and welfare services; public safety and protection; fire and emergency medical services; 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 30th 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.

In April, 2013, the Local Budget Autonomy Amendment Act of 2012 was approved by District voters. This Act would grant the District the right to enact and appropriate its local funds budget without the need for active approval by the United States Congress. The legal validity of this Act was then challenged in the U.S. District Court for the

District of Columbia (“District Court”), which concluded that this Act is unlawful and permanently enjoined its enforcement. On appeal, the U.S. Court of Appeals for the District of Columbia, without ruling on the merits of this Act, issued a summary order vacating the District Court’s judgment and ordering the District Court to remand the case to the District of Columbia Superior Court (“Superior Court”). Subsequently, the case was remanded to the Superior Court where it is currently pending.

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 public accountants 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*,” 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 5.00% 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 or the Special Revenue Funds.

Fund Balance Reserves:

Congressionally Mandated

Through Congressional mandate, the District is required to maintain cash reserves totaling 6.00% of the previous fiscal year’s General Fund Local expenditures less debt service cost. The 6.00% is comprised of a contingency cash reserve of 4.00% and an emergency cash reserve of 2.00%. 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 49. 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 49.
 - **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. The investor information portion of the OCFO website consolidates much of the information listed above, as well as other financial information pertinent to investors in the District's bonds and members of the public.

ECONOMIC CONDITION AND OUTLOOK

In fiscal year (FY) 2015, the rate of employment within the District increased significantly from the prior year, all in the private sector. Resident employment also grew. Population growth continues to be a major factor in increasing the District's income, property, and sales tax bases, and is one of the driving forces behind rising home values. In the last four years (between 2011 and 2015), the District's population has grown by approximately 52,000 residents, an increase that has averaged about 1,080 residents per month over that period of time. In addition, developments in the national economy (such as continued economic growth and low interest rates) have contributed to the District's growing tax base.

Federal civilian employment accounts for 26% of all wage and salary jobs located in the District and 32% of the wages and salaries that are generated in the city. Approximately 25% of employed District residents work for the federal government. 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, known as sequestration, from previously expected levels. Congress has, however, waved some of the limits in approving appropriations bills, most recently for FY 2016 spending. While the FY 2016 budget tempers some of the uncertainty around federal fiscal policy through 2016, the 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 rising job growth, increases in population and a strong housing market as presented below:

- Job growth has picked up since last year. In the three months ended September 2015, there were 12,933 (1.70%) more wage and salary jobs located in the District than a year earlier. Of particular note, there were 900 more federal government jobs in September

than there were a year earlier, while the private sector jobs increased by 11,767 (2.30%).

- District resident employment in the three months ended September 2015 was 10,079 (2.90%) more than a year earlier.
- The September unemployment rate was 6.70% (seasonally adjusted), a decrease from the revised 7.90% a year ago.
- Wages earned in the District of Columbia grew 6.10% in the quarter ending September 30, 2015, compared to the same quarter a year ago. D.C. personal income was 4.80% higher.
- Home sales and prices increased in both single family homes and condominiums. Single family sales for the three-month period ended September 2015 were up 3.90% from a year ago, and there was a 7.90% increase in the average selling price. Condominium sales were up 13.40%, and the average price was 5.60% higher. The value of all home sale settled contracts for the three-month period ended September 2015 was 14.90% more than a year ago.
- Commercial office effective rents edged up over the past year. Leased space in September 2015 was up 0.70% from a year ago, while the vacancy rate fell over the past year from 10.50% to 10.40%.
- Hotel room-days sold for the three months ended September 2015 were 2.50% below the prior year, and hotel room revenues were down by 2.80%.

Key Factors in the District's Economy

Population

The U.S. Census Bureau estimated that there were 672,228 residents in the District of Columbia, as of July 1, 2015. This represents an increase of 12,392, or 1.88%, from the revised July 1, 2014 estimate of 659,836. 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 2011 through 2015.

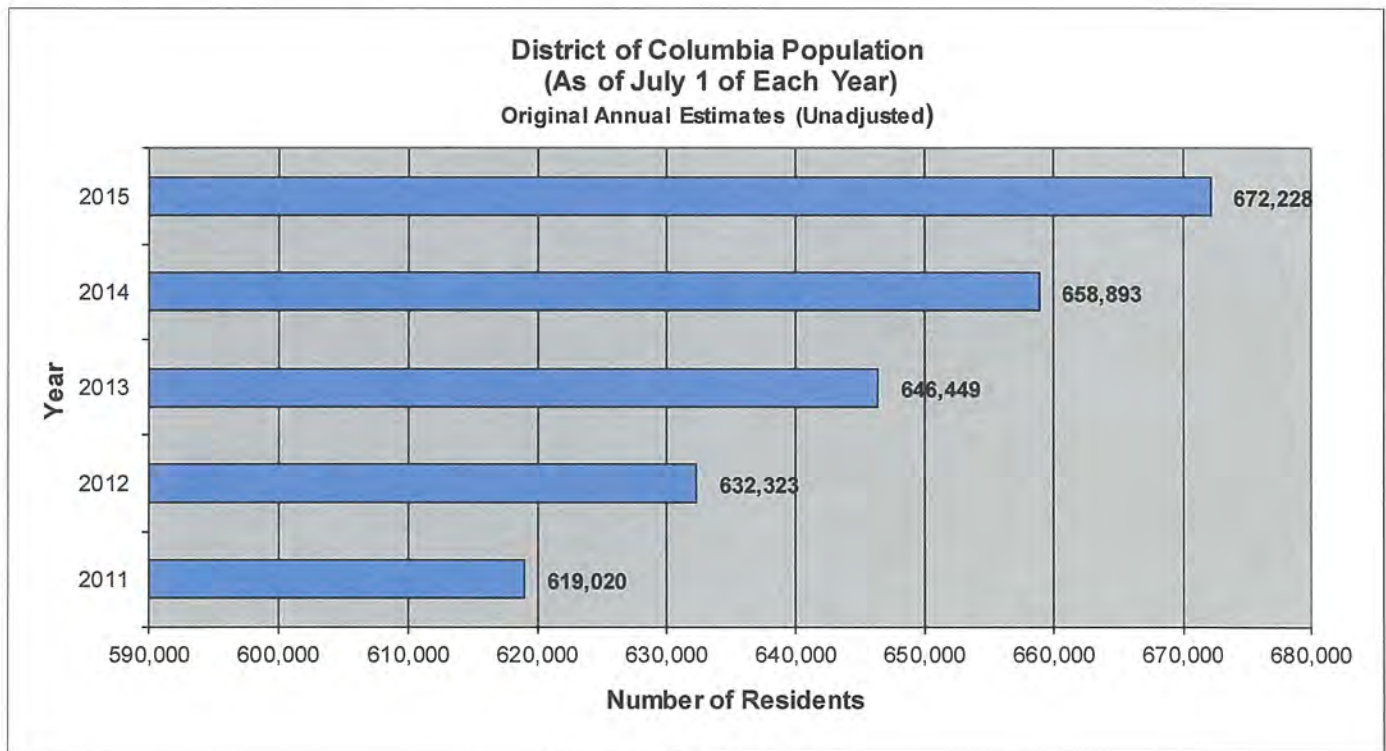
Income Trends

Income has grown considerably in the District in recent years. From the third quarter of 2010 to the third quarter of 2015, personal income grew approximately 25.10 % in the District as compared to 23.30% 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 2015; however, for the two-year period 2013 and 2014, the District’s average median household income of \$64,167 was 20.21% above the U.S. average. The

Census Bureau estimates that 18.20% of the District’s population was below the poverty line in 2014 as compared to 15.60% for all of the U.S.

Chart T1 – Population Trends (2011 – 2015)



Source: U.S. Census Bureau

Employment Trends

Total wage and salary employment in the Washington metropolitan area increased to approximately 3,172,000 in fiscal year 2015 from the revised 3,118,700 for fiscal year 2014, representing a 1.70% 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 2014 employment numbers may differ from those presented in the fiscal year 2014 CAFR because of updates and revisions. **Table T2** presents 2015 labor market data for the District and the metropolitan region.

Total wage and salary employment within the District increased slightly to 24.10% of the metropolitan area’s total wage and salary employment. The seasonally adjusted September 2015 unemployment rate in the

District was 6.70%, compared to the September 2014 revised seasonally adjusted rate of 7.90%.

Total employment within the District increased to 764,700 as of September 2015 from the revised 757,500 as of September 2014. 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 2015 federal workforce in the Washington metropolitan area was 363,700; with approximately 198,300 federal employees located in Washington, D.C. and 165,400 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 2015, the District's minimum wage limit increased to \$10.50 per hour.

Table T2— 2015 Labor Market Data for the District and Surrounding Metropolitan Area

Labor Market (000s): FY 2015

Item	District of Columbia			Metropolitan Area		
	Level	1 yr. change (number)	1 yr. change (%)	Level	1 yr. change (number)	1 yr. change (%)
Employed residents	357.7	7.7	2.2	3,121.3	44.4	1.4
Labor force	384.3	3.9	1.0	3,261.3	23.0	0.7
Total wage and salary employment	764.7	7.4	1.0	3,172.0	53.3	1.7
Federal government	198.3	0.9	0.5	363.7	0.4	0.1
Local government	36.6	-0.8	-2.1	329.4	5.4	1.7
Leisure & hospitality	70.0	-0.9	-1.3	307.8	5.7	1.9
Trade	26.5	0.3	1.1	333.3	1.1	0.3
Education and health	131.5	2.7	2.1	420.3	15.0	3.7
Prof., bus., and other services	233.5	4.5	2.0	920.1	21.5	2.4
Other private	68.3	0.7	1.0	497.1	4.2	0.9
Unemployed	26.6	-3.8	-12.4	140.0	-21.3	-13.2
New Unemployment Claims	1.3	-0.1	-9.7	(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.

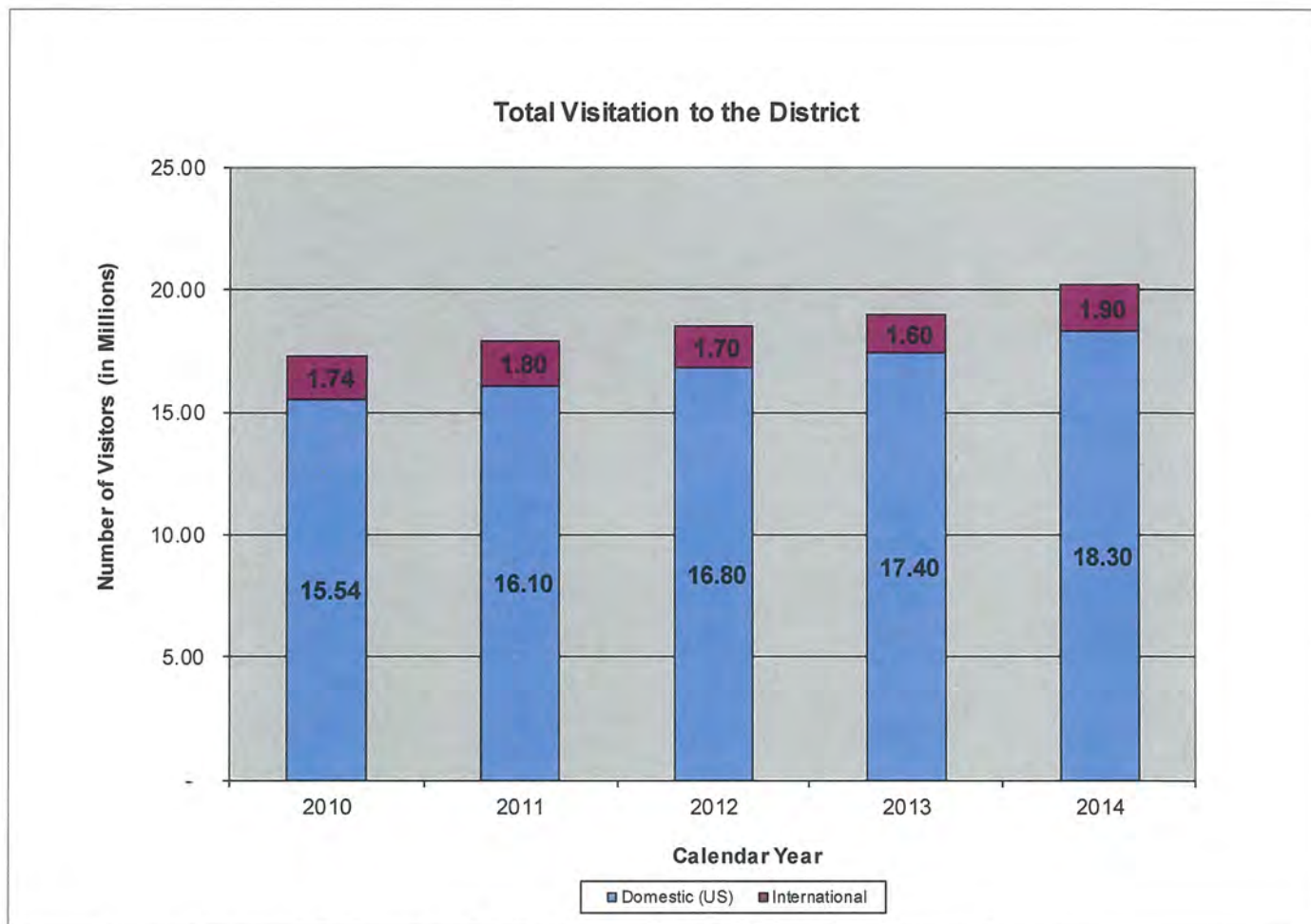
(a) Unemployment claims for metropolitan area not available

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 2014, approximately 18.3 million domestic visitors and 1.9 million international visitors traveled to the District. During calendar year 2014, 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 2010 through 2014. Tourism data for calendar year 2015 is not yet available.

Visitor spending, which totaled approximately \$6.81 billion in 2014, 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 2014 (by category) was as follows: \$2.29 billion for Lodging; \$1.94 billion for Food and Beverage; \$1.14 billion for Entertainment; \$838 million for Shopping/Retail; and \$605 million for Transportation. Total visitor spending increased by \$125 million, or 1.87%, over the prior year. Hotel occupancy was approximately 81.40% as of September 30, 2015. Travel and tourism supported 74,570 jobs in the District, generating approximately \$3.86 billion in wages.

Chart T2 – Trends in District Tourism (2010 – 2014)



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

Construction - Commercial Real Estate

Construction of commercial real estate surged during calendar year 2015. As of September 30, 2015, commercial space under construction in the District totaled 3.24 million square feet as compared to 1.27 million square feet at the end of September 2014. Over the one-year period between 2014 and 2015, occupied commercial office space increased from 81.75 million square feet to 82.45 million square feet and the vacancy rate (including sublet) within the District decreased from 11.60% at the end of 2014 to 11.40% at the end of 2015.

Construction – Housing Units

For the 12-month period ended September 30, 2015, 4,131 housing unit building permits were issued. This represents a 7.50% decrease over the prior 12-month period. **Table T3** presents the number of apartment units located in the District in 2011 through 2015.

In calendar year 2015, there were 100,939 apartment units in the District, of which 93,537, or 92.70%, were occupied. It is anticipated that approximately 3,557 new apartment units will be added to the inventory between calendar years 2015 and 2016, and occupancy will grow by 2,674 units.

Table T3 - District Apartment Units (2011 – 2015)

	2011	2012	2013	2014	2015
Inventory	88,817	91,008	93,574	97,260	100,939
Occupied Units	84,632	86,819	88,501	90,657	93,537

Note: Prior Year's data has been revised

THE DISTRICT’S BOND RATINGS

Rating agencies assess the credit quality of municipal issuers and assign credit ratings 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. Moody’s Investors Service upgraded the District’s General Obligation Bonds from Aa2 to Aa1 in September of 2015.

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				
	2011	2012	2013	2014	2015
Fitch Ratings	AA-	AA-	AA-	AA	AA
Moody’s Investors Service	Aa2	Aa2	Aa2	Aa2	Aa1
Standard & Poor’s Rating Service	A+	A+	AA-	AA	AA

	Income Tax Secured Revenue Bonds				
	2011	2012	2013	2014	2015
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 (Calendar Year Basis)
Retail:				
Hecht Warehouse District	1401 New York Avenue, N.E.	200,800	Not provided	4th Qtr 2014
2251 Wisconsin Avenue	2251-2255 Wisconsin Avenue, N.W.	28,277	\$ 32,000	1st Qtr 2015
Fort Totten Square	South Dakota Avenue & Riggs Road, N.E.	130,000	\$ 120,000	2nd Qtr 2015
The Shops at Dakota Crossing (Phase II)	New York Avenue & South Dakota Avenue, N.E.	266,000	\$ 40,000	3rd Qtr 2015
Office:				
National Square	500 D Street, S.W.	342,000	\$ 140,000	3rd Qtr 2015
Residential:				
415 L Street	415 L Street, N.W.	393 units	\$ 100,000	4th Qtr 2014
Station House	701 2nd Street, N.E.	375 units	\$ 100,000	1st Qtr 2015
Park Chelsea	880 New Jersey Avenue, S.E.	429 units	\$ 150,000	2nd Qtr 2015
Atlantic Plumbing (Parcel A & B)	2030 & 2112 8th Street, N.W.	372 units	\$ 124,000	2nd Qtr 2015
Fort Totten Square	South Dakota Avenue & Riggs Road, N.E.	345 units	\$ 120,000	2nd Qtr 2015
Hospitality:				
Williams Arena	701 Mississippi Avenue, S.E.	48,000	\$ 18,000	4rd Qtr 2014
Hyatt Place	1522 K Street, N.W.	164 units	\$ 40,000	1st Qtr 2015
Homewood Suites & Hampton Inn	501 New York Avenue, N.E.	230 units	Not provided	2nd Qtr 2015
The Watergate	2650 Virginia Avenue, N.W.	348 units	\$ 85,000	3rd Qtr 2015
Education and Medical:				
Science & Engineering Hall	22nd & H Streets, N.W.	290,000	\$ 275,000	1st Qtr 2015
Ballou Senior High School	3401 4th Street, S.E.	365,000	\$ 413,000	2nd Qtr 2015
Washington College of Law	Tenley Campus	322,300	\$ 125,000	3rd Qtr 2015

Table T6 – Projects Under Construction

Project	Location	Square Footage/Units	Estimated Value (in \$000s)	Estimated Delivery Date (Calendar Year Basis)
Retail:				
800 New Jersey Avenue	New Jersey Avenue & H Street, S.E.	35,000	\$ 135,000	3rd Qtr 2016
Apollo	610 H Street, N.E.	75,000	\$ 190,000	4th Qtr 2016
ART Place at Fort Totten (Phase I)	5180 South Dakota Avenue, N.E.	104,000	\$ 117,000	2nd Qtr 2017
The Wharf (Phase I)	Southwest Waterfront	190,000	\$ 806,000	4th Qtr 2017
Office:				
601 Massachusetts Avenue	601 Massachusetts Avenue, N.W.	460,500	\$ 150,000	4th Qtr 2015
2001 M Street	2001 M Street, N.W.	285,000	Not provided	4th Qtr 2015
Department of the Interior (Phase VI)	1849 C Street, N.W.	250,000	\$ 60,000	1st Qtr 2016
600 Massachusetts Avenue	600 Massachusetts Avenue, N.W.	381,592	\$ 206,000	3rd Qtr 2016
Lafayette Building	811 Vermont Avenue, N.W.	466,818	\$ 112,000	1st Qtr 2017
Capitol Crossing (North Block)	I-395 at 3rd St. & Massachusetts Avenue,	936,000	Not provided	2017
The Wharf (Phase I)	Southwest Waterfront	230,000	\$ 806,000	4th Qtr 2017
Residential:				
Camden NoMa (Phase II)	60 L Street, N.E.	406 units	\$ 130,000	1st Qtr 2016
Apollo	610 H Street, N.E.	431 units	\$ 190,000	4th Qtr 2016
ART Place at Fort Totten (Phase I)	5180 South Dakota Avenue, N.E.	520 units	\$ 117,000	2nd Qtr 2017
The Wharf (Phase I)	Southwest Waterfront	872 units	\$ 806,000	4th Qtr 2017
Hospitality:				
Hampton Inn & Suites Washington, DC Ballpark	1st & N Streets, S.E.	168 units	Not provided	3rd Qtr 2016
The Wharf (Phase I)	Southwest Waterfront	683 rooms	\$ 806,000	4th Qtr 2017
Museum of the Bible	300 D Street, S.W.	430,000	\$ 800,000	4th Qtr 2017
Education and Medical:				
AU East Campus	3501 Nebraska Ave., N.W.	340,000	\$ 100,000	3rd Qtr 2016
New Residence Hall on Square 77	2121 H Street, N.W.	330,000	\$ 130,000	3rd Qtr 2016

Office and Hospitality Projects:

- **Capitol Crossing**

In May 2015, the District broke ground on one of the District's largest private development projects, the Capitol Crossing. The Capitol Crossing development effort is a \$1.3 billion project featuring a 2.2 million square feet complex of five mixed-use buildings. The project will create three new city blocks by transforming seven acres of land above I-395 into a platform that will bridge the East End of downtown with Capitol Hill.

The Capitol Crossing will be comprised of 1.9 million square feet of office space, 63,000 square feet of retail space, 150 residential units and a new Jewish Historical Society Synagogue. The project is expected to generate about \$40 million in property tax revenue every year, once it is completed. In addition, some of the project's anticipated benefits include the creation of 4,000 construction jobs, 8,000 permanent jobs, and \$120 million in payments to the District for the air

rights. Phase I of the project, the first building, is expected to be completed in 2017.

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

The Wharf is one of the region's largest redevelopment opportunities which will transform the underutilized Southwest Waterfront into an urban destination centrally located on the Potomac River, along the historic Washington Channel, a short distance from the National Mall, the White House, the Capitol and Smithsonian Museums.

The \$2 billion world-class, mixed-use project is comprised of 27 acres of land and more than 50 acres of water. When complete, the Wharf will feature 3.2 million square feet of 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.

Phase I, with a building area of more than 1.9 million square feet, is projected to open in 2017 and is expected to cost about \$775 million. It 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.

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

The Council of the District of Columbia has approved the use of public funds to help build a world-class stadium for Major League Soccer's D.C. United. This 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, which accommodates 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.

On September 30, 2015, the District filed for eminent domain to acquire site control at Buzzard Point in preparation for construction of the new soccer stadium. The 17,000-25,000-seat facility is planned to open prior to the 2018 season.

- **New Entertainment and Sports Arena – St. Elizabeth's East Campus**

In September 2015, the Mayor along with sponsors, Monumental Sports & Entertainment and Events DC, announced plans to build a new, state-of-the-art Entertainment and Sports Arena at St. Elizabeth's East Campus located in Ward 8. This \$55 million joint venture will build the future practice facility for the Washington Wizards NBA team, home court of the Washington Mystics WNBA team and a premier concert/entertainment venue. The new 5,000-seat facility is projected to produce \$90 million in new tax revenues over 20 years and will also attract over 350,000 new visitors annually.

The total construction cost of \$55 million will be funded by the sponsors as follows: Events DC, \$27 million, the District, \$23 million, and Monumental, \$5 million. Events DC will be responsible for the construction of the new facility. The District will own the facility and retain Events DC as the company responsible for operations and management of the facility under a 19-year lease, at no costs to the District.

Construction is scheduled to begin in July 2016 with completion in fall of 2018.

- **McMillan Sand Filtration Site**

The 25-acre historic McMillan Sand Filtration Site, located at North Capitol Street and Michigan Avenue, is expected to be redeveloped into a mixed-use project that will include historic preservation, open space, residential, retail, and office uses. The old McMillan Sand filters (owned by the federal government) served as the District's water purification system for approximately 80 years until operations were ceased in 1986. Subsequently, the surplus land was sold to the District in 1987 for the purpose of redevelopment. Since the sale of the property, the McMillan Site has been the subject of numerous studies and development proposals. In 2007, Vision McMillan Partners was selected to advise the District on the land development which has resulted in today's "master plan". The District and Vision McMillan Partners will create a large public park, community center with water recreation features, neighborhood-serving retail, housing for all income levels, and state-of-the-art healthcare facilities. The official groundbreaking is scheduled for mid-2016.

Transportation Projects:

- **D.C. Streetcar**

Although it has been over 50 years since streetcars last operated in the District, their return is now within sight. The H Street/Benning Road line (in the Northeast area of the District) will be the first segment of the DC Streetcar system to offer passenger service. In 2013, the roadway construction along the H Street/Benning Road line was completed, and currently the streetcar vehicles are being tested along the route. Also, construction is complete at the Testing and Commissioning site in Anacostia, and planning is underway for additional segments throughout the District.

The District currently owns six streetcars that will ultimately serve the system. They 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.

DC Streetcar will facilitate travel for District residents, workers and visitors by complementing existing transit options and by creating neighborhood connections where they currently do not exist. 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 3,000 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, \$8; for 3 days, \$17; 30 days, \$28; or for a full year, \$85. An annual membership which will be paid in monthly installments costs \$96 (\$8 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. For non-frequent users, a Day-Key membership option is available for \$10 granting them 24-hour access. 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>.

- **South Capitol Street Corridor Project**

The South Capitol Street Corridor Project involves replacing the Frederick Douglass Memorial Bridge and transforming related sections of urban freeway into a beautiful scenic boulevard that increases pedestrian and vehicular safety, community accessibility, while improving multi-modal transportation options and supporting economic development on both sides of the Anacostia River. Key project elements include:

- Building a new six-lane Frederick Douglass Memorial Bridge
- Creating a new traffic oval west of the river that connects South Capitol Street, Potomac Avenue and Q Street S.W.
- Reconstructing South Capitol Street as a six-lane boulevard with an improved streetscape from the traffic oval to D Street S.E./S.W. and an at-grade intersection at M Street S.E.
- Creating a new at-grade traffic oval east of the river that connects South Capitol Street, Suitland Parkway and Howard Road S.E.
- Reconstructing the Suitland Parkway/Interstate 295 interchange
- Constructing a new diamond interchange on Suitland Parkway at Martin Luther King Jr Avenue
- Improving related portions of New Jersey Avenue, Howard Road, Firth Sterling Avenue, and Sheridan Road S.E.
- Increasing bicycle and pedestrian facilities
- Improving drainage and storm water management throughout the corridor

Preliminary engineering and Right of Way land acquisition for the project have been underway since January 2012. Construction is scheduled to begin in 2017 and completion of this project is projected for the end of 2020.

- **11th Street Bridge Project**

The 11th Street Bridge Project, which began in December 2009, was by far the largest project undertaken by the District Department of Transportation (DDOT) in recent years.

The project entailed replacing two bridges built in the 1960s with three new bridges that separate local and freeway traffic. The new freeway bridges also provide the missing interstate connections between I-695 (also known as the Southeast-Southwest Freeway) and DC-

295, fixing a long-standing deficiency that forced motorists to use local streets to connect to and from both freeways.

Phase 1, which included constructing the three new bridges and a new 14-foot pedestrian and bicycle sidewalk on the local bridge, was completed in July 2013. Phase 2, which further improved connections along the I-695 and laid the groundwork for its reconstruction to a level Boulevard between 8th Street S.E. and Barney Circle, was completed in mid-2015. The 11th Street Bridge Project has replaced the dilapidated, two-lane I-695 outbound flyover bridge (over M Street) with a new, three-lane bridge. In addition, it raises the SE/SW freeway approximately 20 feet between 8th and 13th Streets to provide better access to Capitol Hill and Historic Anacostia via new ramps on 11th Street from the I-695 (aka SE/SW Freeway) and Boulevard.

The District has also implemented projects and initiatives that focus on protecting the environment. One such initiative is described 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 2015, the District collected approximately \$2.2 million in bag taxes. Since the inception of the tax in 2010, the District has collected more than \$11.7 million in such taxes.

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, DC 20004
Telephone: (202) 727-6365
Website: <http://dmped.dc.gov>
- **District Department of Transportation**
55 M Street, S.E., Suite 400
Washington, DC 20003
Telephone: (202) 673-6813
Website: <http://ddot.dc.gov>
- **Office of Planning**
1100 Fourth Street, S.W., Suite E650
Washington, DC 20024
Telephone: (202) 442-7600
Website: <http://planning.dc.gov>
- **Department of Parks and Recreation**
1250 U Street, N.W.
Washington, DC 20009
Telephone: (202) 673-7647
Website: <http://dpr.dc.gov>
- **Department of General Services**
2000 14th Street, N.W., 8th Floor
Washington, DC 20009
Telephone: (202) 727-2800
Website: <http://dgs.dc.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, 2014. The District has received this award for 31 of the last 33 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 2015 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, 2014, for the twelfth 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 2015 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 public accountants, SB & Company, LLC, assisted by Regis & Associates and GKA, for their efforts throughout the audit engagement.

Respectfully submitted,



Bill Slack
Deputy Chief Financial Officer
Financial Operations and Systems