

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 25, 2017

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, 2016, 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, 2016. 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 independent public accountants' 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 United States Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, which superseded OMB Circular A-133 and other related guidances, is also performed annually and a separate report, often referred to as the Single Audit Report, is issued by independent public accountants. The District's fiscal year 2016 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 local funds budget is reviewed and passively approved by Congress, and the federal funds budget must be approved by Congress and the President of the United States.

The Home Rule Act prohibits the taxing of federal 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 the Flood Prevention Act of 2016 to amend the Coastal Zone Management Act of 1972 (CZMA) in order to include the District of Columbia in the definition of a coastal state and to allow the District to receive Federal funding under such Act, and for other purposes. The CZMA was passed in 1972 before the District achieved home rule and therefore, was excluded from the coastal state(s) which is comprised of the states and the U.S. territories. The CZMA provides planning and technical services to assist states in protecting, restoring, and developing coastal communities and resources. Once the federal government approves a state's coastal management plan, the state becomes eligible for grants. Even though the District has substantial coastal flood risks and is under threat from rising sea levels, the District is omitted from the list of eligible states and territories in the CZMA. The Flood Prevention Act of 2016 intends to make the District eligible to receive federal funding and give the District oversight for federally issued permits/facilities/and actions that affect the coastal waters of the District.
- Introduced two bills that were subsequently passed by the House of Representatives to improve the District of Columbia's local justice system. One bill enhances financial disclosure requirements for local D.C. judges, making them similar to

the disclosure requirements already in place for federal judges, and makes other improvements to the D.C. courts. This bill includes four provisions: authorizes the use of magistrate judges to serve in the Probate Division; grants the D.C. courts authority to accept credit cards, other forms of electronic funds transfer, and checks; increases the jurisdictional amount of the Small Claims and Conciliation Branch of the D.C. Superior Court from \$5,000 to \$10,000; and allows chief judges of the Superior Court and the Court of Appeals to delegate authority to approve certain vouchers. Congresswoman Norton's other bill provides the D.C. courts and the Public Defender Service for the District of Columbia (PDS) with the same authority that federal courts and federal agencies have to offer voluntary separation incentive payments, or buyouts, to their employees. Having the ability to offer buyouts will allow the D.C. Courts and PDS to respond to their future administrative and budget needs, and will provide certain flexibility to extend buyout offers to their employees. The fiscal year 2016 omnibus bill gave D.C. courts buyout authority; however, Congresswoman Norton's bill will make this authorization permanent, and extends it to PDS in addition to the courts.

- Requested that the National Park Service (NPS) consider creating an online portal to provide District of Columbia residents with regularly updated information on neighborhood parks owned and operated by the NPS in the District, including answers to frequently-asked maintenance questions and contact information for representatives responsible for the parks. In her request, Congresswoman Norton raised the concern that residents struggle to connect directly with NPS representatives to submit maintenance requests or to find contact information for the superintendent responsible for their neighborhood park. To alleviate such issues, she emphasized that the proposed portal should, ideally, include: centralized and easy-to-navigate information about all of the parks owned and operated by the NPS in the District; a comprehensive Frequently Asked Questions (FAQ) section that is specific to the District residents' concerns; and contact information for appropriate staff at the NPS to whom District residents can speak or a more detailed email form that allows residents to select the park and issue they are having from a drop down menu.
- Introduced an amendment that was included in the Surface Transportation Reauthorization and Reform Act of 2015 (STRR) to implement direct federal safety oversight of the Washington Metropolitan Area Transportation Authority (WMATA) Metrorail system. In addition, the bill includes other important priorities which affect the District of Columbia, such as: increased safety for bus and rail systems; funding for workforce development; small-business contract

opportunities for minorities and women; new pilot funding projects for the rapidly deteriorating Highway Trust Fund; increased funding for National Park Service (NPS) roads to help rebuild Arlington Memorial Bridge; protections for bus and rail operators from assault; and increased restroom breaks for bus and transit operators.

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 60 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 Local Budget Act and a Federal Portion 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, the Federal Portion Budget Request Act is forwarded to the President of the United States (the President) and then to Congress for approval. The Local Budget Act is forwarded by the Chairman of the Council to

Congress. Congress enacts the federal portion of the District's budget through passage of an appropriations bill, which is signed into law by the President. The Local Budget Act becomes law upon expiration of a 30 day Congressional review period.

The legally adopted budget is the Federal Portion Budget Request that is approved as part of the annual Appropriations Act passed by Congress and signed by the President, and the Local Budget Act that has been passively approved by Congress. The Local Budget 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 of local funds for any function, the Council 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. As approved, 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 was 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 ratified the legality of the Local Budget Autonomy Act. No appeal was made in that case.

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 audit 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 Board of Review for Anti-Deficiency Violations 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 established by D.C. Code § 1-204.50a, 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 that are 5.00% or more below the budget forecast. 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. Pursuant to D.C. Code § 47-392.02(j-1), as amended, the fiscal stabilization reserve account may be used by the Chief Financial Officer to cover cash flow needs; provided, that any amounts used shall be replenished to the fiscal stabilization reserve account in the same fiscal year. 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, pension and OPEB 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:
 - i. Fund balance released from restrictions
 - ii. Proceeds from debt restructuring
 - iii. Accounts receivable allowance
 - iv. 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 (www.cfo.dc.gov) 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) 2016, employment within the District continued to increase with two thirds of the additional jobs in the private sector and one third in government (both federal and local). Resident employment also increased. 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 five years (between 2011 and 2016), the District's population has grown by almost 61,000 residents, an increase that has averaged about 1,000 residents per month over that period of time. The District's private sector has grown along with sustained growth in the national economy. This has contributed to the growth in the District's tax base.

Federal civilian employment accounts for 26% of all wage and salary jobs located in the District and 32% of the amount of 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.

For FY 2016 Congress waived some of the limits in approving appropriation bills that otherwise would have been subject to reduction, known as sequestration, from the previously expected level of federal spending. These sequestration limits are scheduled to return in FY 2018 and continue through FY 2023 unless Congress once again lifts these limits, but the most feasible approach for reducing federal debt remains an unresolved issue.

Federal government expansion cushioned the District and metropolitan area economies from the worst effects of the severe national recession that lasted from 2007 to 2009. 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, including rising job growth, increases in population and a strong housing market, are presented below:

- In the three months ended September 2016, there were 12,333 (1.60%) more wage and salary jobs located in the District than a year earlier. Of particular note, there were 4,567 (1.89%) more federal government jobs in September than there were a year earlier, while the private sector jobs increased by 7,767 (1.50%).
- District resident employment in the three months ended September 2016 was 3,940 (1.10%) more than a year earlier.
- The September unemployment rate was 6.10% (seasonally adjusted), a decrease from 6.70% a year ago.
- Wages earned in the District of Columbia grew 5.30% in the quarter ending September 30, 2016, compared to the same quarter a year ago. D.C. personal income was 4.50% higher on September 30, 2016 compared to the same time one year ago.
- Home sales and prices increased in both single family homes and condominiums. Single family sales for the three-month period ended September 2016 were up 8.60% from a year ago, and there was a 2.20% increase in the average selling price. Condominium sales were down 0.50%, and the average price was 3.50% higher. The value of all home sale settled contracts for the three-month period ended September 2016 was 8.00% more than a year ago.
- Commercial office effective rents edged up over the past year. Leased space in September 2016 was down 0.60% from a year ago, while the vacancy rate (including sublets) rose over the past year from 11.40% to 12.70%.
- Hotel room-days sold for the three months ended September 2016 were up 3.20% from the prior year, and hotel room revenues were up by 8.60%.

Key Factors in the District's Economy

Population

The U.S. Census Bureau estimated that there were 681,170 residents in the District of Columbia, as of July 1, 2016. This represents an increase of 10,793, or 1.61%, from the revised July 1, 2015 estimate of 670,377. Annual census estimates are based on birth and death records, changes in tax return filings, and estimates of the number of immigrants who move in and out of the District each year. **Chart T1** presents the District's population trends for calendar years 2012 through 2016.

Income Trends

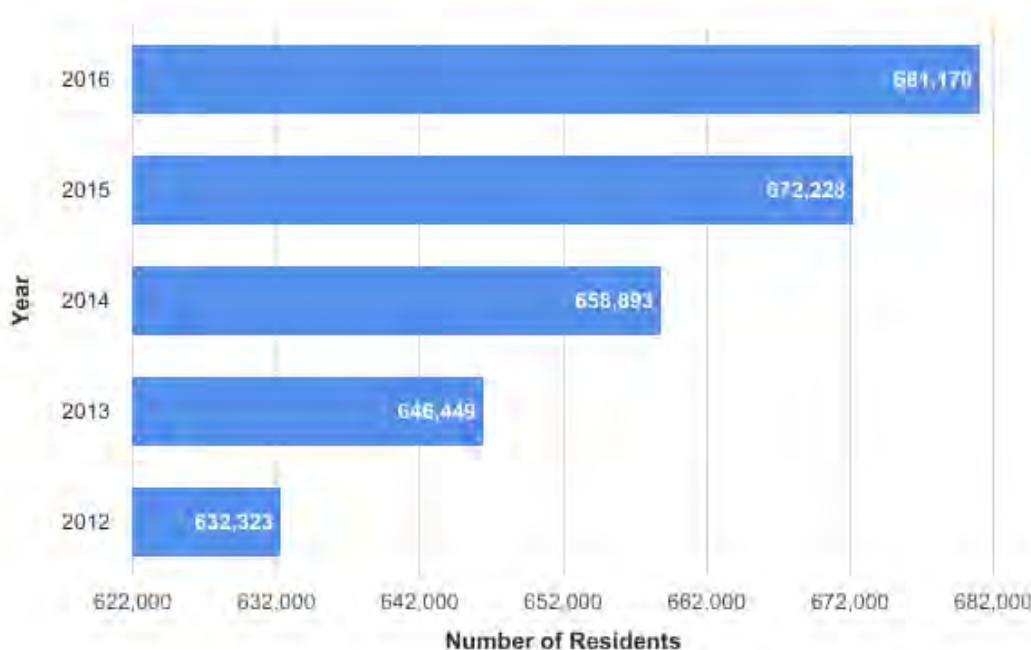
Income has grown considerably in the District in recent years. From the third quarter of 2011 to the third quarter of 2016, personal income grew approximately 25.80% in the District as compared to 20.90% nationally.

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 2016; however, for 2015 the District's median household income of \$75,628 was 35.59% above the U.S. average. The Census Bureau estimates that 17.30% of the District's population was below the poverty line in 2015 as compared to 13.50% for all of the U.S.

Chart T1 – Population Trends (2012 - 2016)

**District of Columbia Population (As of July 1 of Each Year)
Original Annual Estimates (Unadjusted)**



Source: U.S. Census Bureau

Employment Trends

Total wage and salary employment in the Washington metropolitan area increased to approximately 3,257,000 at the end of fiscal year 2016 from the revised 3,180,900 for fiscal year 2015, representing a 2.39% 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 2015 employment numbers may differ from those presented in the fiscal year 2015 CAFR because of updates and revisions. **Table T2** presents 2016 labor market data for the District and the metropolitan region.

In September 2016, total wage and salary employment within the District reached 23.96% of the metropolitan

area's total wage and salary employment. The seasonally adjusted September 2016 unemployment rate in the District was 6.10%, compared to the September 2015 revised seasonally adjusted rate of 7.20%.

Total employment within the District increased to 780,400 as of September 2016 from the revised 766,600 as of September 2015. 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 2016 federal workforce in the Washington metropolitan area was 369,800; with approximately 201,800 federal employees located in Washington, D.C. and 168,000 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 2016, the District's minimum wage limit increased to \$11.50 per hour. In June 2016, D.C. Mayor Muriel Bowser

signed the Fair Shot Minimum Wage Amendment Act of 2016. This legislation will progressively increase the hourly minimum wage to \$15 for District workers by 2020.

Living Wage Rate

Pursuant to D.C. Law 16 -118, the Living Wage Act of 2006 became effective June 9, 2006. This Act provides that District of Columbia government contractors and recipients of government assistance (grants, loans, tax increment financing) in the amount of \$100,000 or more shall pay affiliated employees no less than the current living wage rate. Effective January 1, 2016, the District living wage rate is \$13.85 per hour. This rate increases annually in proportion to the annual average increase in the Consumer Price Index for all Urban Consumers in the Washington Metropolitan Statistical Area for the preceding 12 months.

Table T2 - 2016 Labor Market Data for the District and Surrounding Metropolitan Area**Labor Market (000s): FY 2016**

Item	District of Columbia			Metropolitan Area		
	Level	1 yr. change (number)	1 yr. change (%)	Level	1 yr. change (number)	1 yr. change (%)
Employed residents	364.3	2.8	0.8	3,166.5	38.4	1.2
Labor force	389.7	1.9	0.5	3,293.4	24.3	0.7
Total wage and salary employment	780.4	13.8	1.8	3,257.0	76.1	2.4
Federal government	201.8	3.7	1.9	369.8	4.9	1.3
Local government	40.5	1.4	3.6	332.7	4.1	1.2
Leisure & hospitality	75.6	2.3	3.1	323.9	9.5	3.0
Trade	28.6	1.1	4.0	348.0	8.0	2.4
Education and health	129.1	1.1	0.9	428.1	14.1	3.4
Prof., bus., and other services	236.4	3.8	1.6	948.1	29.0	3.2
Other private	68.4	0.4	0.6	506.4	6.5	1.3
Unemployed	25.4	(0.9)	(3.5)	126.9	(14.1)	(10.0)
New Unemployment Claims	1.2	(0.1)	(9.6)	(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 2015, approximately 19.3 million domestic visitors and 2 million international visitors traveled to the District. During calendar year 2015, 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 2011 through 2015. Tourism data for

calendar year 2016 is not yet available.

Visitor spending, which totaled approximately \$7.10 billion in 2015, 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 2015 (by category) was as follows: \$2.41 billion for Lodging; \$2.04 billion for Food and Beverage; \$1.17 billion for Entertainment; \$877 million for Shopping/Retail; and \$599 million for Transportation. Total visitor spending increased by \$283 million, or 4.15%, over the prior year. Hotel occupancy was approximately 81.60% as of September 30, 2016. Travel and tourism supported 74,445 jobs in the District, generating approximately \$3.90 billion in wages.

Chart T2 – Trends in District Tourism (2011 – 2015)



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

Construction – Commercial Real Estate

Construction of commercial real estate surged during calendar year 2016. As of September 30, 2016, commercial space under construction in the District totaled 5.87 million square feet as compared to 3.24 million square feet at the end of September 2015. Over the one-year period between 2015 and 2016, occupied commercial office space decreased from 82.45 million square feet to 78.19 million square feet and the vacancy rate (including sublet) within the District increased from 11.40% at the end of 2015 to 12.70% at the end of 2016.

Construction – Housing Units

For the 12-month period ended September 30, 2016, 5,129 housing unit building permits were issued. This represents a 24.16% increase over the prior 12-month period. **Table T3** presents the number of apartment units located in the District in 2012 through 2016.

In calendar year 2016, there were 177,505 apartment units in the District, of which 170,172, or 95.87%, were occupied. In September 2016, 11,963 apartment units were under construction.

Table T3 – District Apartment Units (2012 - 2016)

	2012	2013	2014	2015	2016
Inventory	162,891	166,686	171,429	174,578	177,505
Occupied Units	156,321	158,522	162,975	167,590	170,172

Source: CoStar - Prior Years' data have been revised to include units in private buildings with 5 or more units

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. **Table T4** presents the District's ratings for the past five years for its General Obligation Bonds and Income Tax Secured Revenue Bonds. The District's ratings for its bonds have remained high over the last several years.

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				
	2012	2013	2014	2015	2016
Fitch Ratings	AA-	AA-	AA	AA	AA*
Moody's Investors Service	Aa2	Aa2	Aa2	Aa1	Aa1*
Standard & Poor's Rating Service	A+	AA-	AA	AA	AA
	Income Tax Secured Revenue Bonds				
	2012	2013	2014	2015	2016
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**

* High grade rating attributed to an obligor with a very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.

** Highest possible grade rating attributed to an obligor with an extremely strong capacity to meet its financial commitments.

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 – Projects Completed (by Economic Sector)

Project	Location	Square Footage/Units	Estimated Value of the Project (in \$000s)	Delivery Date (Calendar Year Basis)
Retail:				
The Shops at Dakota Crossing (Phase II - Lowe's)	2425 Market Street, N.E.	130,000	\$20,000	4th Qtr 2015
Capitol Gateway Marketplace	58th & East Capitol Street, N.E.	162,200	\$100,000	3rd Qtr 2016
Office:				
Department of the Interior (Phase VI)	1849 C Street, N.W.	221,357	\$60,000	1st Qtr 2016
Republic Square (Phase II)	660 North Capitol Street, N.W.	195,000	\$65,000	1st Qtr 2016
2001 M Street	2001 M Street, N.W.	285,000	Not provided	2nd Qtr 2016
600 Massachusetts Avenue	600 Massachusetts Avenue, N.W.	381,592	\$206,000	3rd Qtr 2016
Residential:				
Hecht Warehouse District	1401 New York Avenue, N.E.	330 units	Not provided	4th Qtr 2015
Eliot on 4th	1001 4th Street, S.W.	365 units	\$100,000	3rd Qtr 2016
Hospitality:				
Hyatt Place DC Capitol / National Mall	400 E Street, S.W.	170,665	\$65,000	4th Qtr 2015
Homewood Suites	50 M Street, S.E.	135,200	\$60,000	3rd Qtr 2016
Education and Medical:				
Theodore Roosevelt High School	4301 13th Street, N.W.	328,000	\$113,000	4th Qtr 2015
New Sibley	5255 Loughboro Road, N.W.	470,000	\$242,000	3rd Qtr 2016
New Residence Hall on Square 77	2121 H Street, N.W.	330,000	\$130,000	3rd Qtr 2016
Duke Ellington School of the Arts	3500 R Street, N.W.	258,072	\$ 139,000	3rd Qtr 2016
AU East Campus	3501 Nebraska Avenue, N.W.	247,551	\$ 115,000	3rd Qtr 2016

Source: Washington, DC Development Report 2015/2016 Edition.

Table T6 – Projects Under Construction

Project	Location	Square Footage/ Units	Estimated Value (in \$000s)	Estimated Delivery Date (Calendar Year Basis)
Retail:				
Uline Arena	1140 3rd Street, N.E.	72,975	\$125,000	4th Qtr 2016
The Wharf (Phase I)	Southwest Waterfront	190,000	\$806,000	4th Qtr 2017
Skyland Town Center (Phase I)	Alabama Avenue & Naylor Road, S.E.	220,000	\$150,000	2018
McMillan Sand Filtration Site	North Capitol Street & Michigan Avenue, N.W.	80,000	\$720,000	2018
Office:				
Consumer Financial Protection Bureau HQ Modernization	1700 G Street, N.W.	503,000	\$139,000	3rd Qtr 2017
Center Building (DHS HQ)	St. Elizabeths West Campus	284,000	\$155,000	3rd Qtr 2017
99 M Street	1st Street & M Street, S.E.	215,000	\$116,000	3rd Qtr 2017
The Wharf (Phase I)	Southwest Waterfront	230,000	\$806,000	4th Qtr 2017
Capitol Crossing (North Block)	I-395 at 3rd, E & Massachusetts Ave, N.W.	954,000	\$1,075,000	2018
Residential:				
Agora	800 New Jersey Avenue, S.E.	336 units	\$141,000	4th Qtr 2016
AVA NoMa	55 M Street, N.E.	438 units	\$145,000	1st Qtr 2017
909 Half Street	20 K Street, S.E.	383 units	\$100,000	1st Qtr 2017
The Wharf (Phase I)	Southwest Waterfront	230,000	\$806,000	4th Qtr 2017
Hospitality:				
Trump International Hotel (The Old Post Office)	1100 Pennsylvania Avenue, N.W.	536,000	\$200,000	4th Qtr 2016
National Museum of African-American History & Culture	The National Mall	322,600	\$309,000	4th Qtr 2016
The Line DC	1780 Columbia Road, N.W.	176,671	\$100,000	4th Qtr 2016
F1rst	1st & N Street, S.E.	127,200	\$150,000	1st Qtr 2017
The Wharf (Phase I)	Southwest Waterfront	645,500	\$806,000	4th Qtr 2017
Education and Medical:				
Marie Reed Elementary School	2201 18th Street, N.W.	140,000	\$31,000	2017
GWU HOVA Student Housing	2601 Virginia Avenue, N.W.	117,000	\$40,000	2017
McMillan Sand Filtration Site	North Capitol Street & Michigan Avenue, N.W.	1,000,000	\$720,000	2018

Source: Washington, D.C. Development Report 2015/2016 Edition.

Office, Sports, and Hospitality Projects:

• Capitol Crossing

Capitol Crossing, one of the District's largest private development projects, is a \$1.3 billion project featuring a 2.2 million square-foot 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 project 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 2018.

• 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 estimated \$2 billion world-class, mixed-use project is comprised of 24 acres of land and more than 50 acres of water. When complete, the 3.2 million square-foot site will feature a unique blend of 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 is expected to cost about \$806 million and projected to open in 2017. Phase I will consist of a building area of more than 1.9 million square feet, and includes: 872 residential units; 190,000 square feet of retail; 230,000 square feet of office space; 683 hotel rooms; 140,000 square feet of cultural and entertainment space; and 1,475 underground parking spaces.

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

In April 2016, an infrastructure groundbreaking, which consisted of a ceremonial demolition of part of the stadium site at 2nd and S Streets, marked the first tangible stage of preparation for the building of D.C. United's new stadium in Buzzard Point. The world-class stadium for Major League Soccer's D.C. United 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.

The \$300 million state-of-the-art facility is a public-private partnership that will help revitalize a neighborhood on the banks of the Anacostia River, create nearly 900 job opportunities for District residents, and strengthen a commitment to community and fan engagement. The District has agreed to spend up to \$150 million to acquire the stadium footprint and to prepare the land for development, while D.C. United will finance vertical construction of the stadium. The 20,000-seat facility is scheduled for completion in 2018.

- **Midtown Center**

In May 2016, Carr Properties broke ground on a \$650 million mixed-use development that is being built on the site of the Washington Post's former headquarters at 15th and L streets, N.W. The Midtown Center development project, which will consist of two linked 14-story towers featuring 862,000 square feet of office, retail and parking spaces, will serve as the new headquarters of government-sponsored enterprise, Fannie Mae, when complete.

In addition to the 752,000 square feet of premier office space that Fannie Mae will call home, the property will feature 50,000 square feet of destination-oriented retail consisting of a 15,000-square-foot retail plaza between the two structures and a 10,000-square-foot retail alley. The property will also offer three levels of below-grade parking and a 1,300-square-foot bike room to accommodate visitor arrivals. Construction is underway and substantial completion of Phase 1 is scheduled for the fourth quarter of 2017, followed by Phase 2 in the second quarter of 2018.

- **Conrad Washington, D.C. Luxury Hotel at CityCenterDC**

In June 2016, D.C. Mayor Muriel Bowser joined Developers to confirm the start of construction of the Conrad Washington, D.C., a 360-room luxury

hotel with 30,000 square feet of ground-floor retail space at CityCenterDC, a 10-acre landmark, mixed-use development located on the site of the former Washington Convention Center. The Conrad Washington, D.C. marks the seventh building developed by Hines and Qatari Diar at CityCenterDC. With exceptional hotel rooms and exclusive retail elements, this new venture, which represents Hilton Worldwide Holdings Inc.'s first Conrad Hotel in the District, will further enhance the architectural excellence at CityCenterDC. The Conrad Washington, D.C. is expected to open in early 2019.

Transportation Projects:

- **D.C. Streetcar**

Launched in February 2016, over 50 years since the District's first streetcars, the H Street/Benning Road (H/Benning) line is a 2.4-mile DC Streetcar line which services eight stops from Union Station to Oklahoma Avenue at RFK Stadium's parking lot. In September 2016, service increased from six to seven days a week, with shorter wait times. DC Streetcar is intended to facilitate travel for District residents, workers and visitors by complementing existing transit options and by creating neighborhood connections where they currently do not exist.

The District currently owns six streetcars that will ultimately serve the system. They are approximately eight feet wide and 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.

The existing H/Benning Line is just the first segment of an extended east-west line that will traverse the city from beyond the Anacostia at Benning Metro to the Georgetown waterfront. 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://www.dcstreetcar.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, and 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.

- **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 2016, the District collected approximately \$2.3 million in bag taxes. Since the inception of the tax in 2010, the District has collected approximately \$14 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, 2015. The District has received this award for 32 of the last 34 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 2016 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, 2015, for the thirteenth 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 2016 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 contributed 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