

Government of the District of Columbia



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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, 2017, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District's management. 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 ongoing 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, 2017. 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, issued a report (commonly referred to as the Yellow Book Report) in conjunction with the CAFR. This report discussed the independent public accountants' consideration of the District's internal control over financial reporting and the outcome of the auditors' tests of the District's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other related requirements.

Moreover, an audit of compliance with the United States Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 2017 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. (hereinafter 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

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 of the District of Columbia (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 with no action taken by Congress.

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 a bill to eliminate the requirement that residents at Federal Bureau of Prisons (BOP) halfway houses (Residential Reentry Centers) pay a subsistence fee of 25 percent of their gross income to offset the cost of being housed. This bill is particularly important for the District of Columbia because D.C. Code felons are the only local felons housed by BOP and are subject to the fee when in halfway houses. BOP has the ability to waive or reduce the fee; however, this bill would eliminate the fee altogether. A November 2016 Department of Justice memorandum recommending reforms for federal halfway houses suggested developing a plan to "limit the use of counterproductive 'subsistence' fees imposed on indigent residents." The memorandum stated, "The Bureau's process for collecting these subsistence fees is costly and administratively burdensome for both [Residential Reentry Centers] and the Bureau, and these fees make it difficult for residents, who typically earn minimum wage, to meet their other financial obligations, including restitution, fines, and child support." BOP used to impose the fee on people on home confinement, but changed the policy in August 2016.

Congresswoman Norton has indicated that eliminating costly subsistence fees is a simple way to help returning citizens living at halfway houses save money, pay their way and their obligations,

and make the transition back to society. This change is a critical reform that could help relieve repeated offenses and is a particularly important measure for D.C. residents, the only local inmates housed at BOP halfway houses.

- Introduced the District of Columbia Federal Officials Residency Requirement Equality Act, a bill that would amend federal law to require certain federal officials who serve the District of Columbia to live within its boundaries. Across the United States, federal district court judges, U.S. Attorneys, and U.S. Marshals are required by federal law to reside in the jurisdictions where they have been appointed to serve. However, officials appointed to serve the residents of the District are not bound by these same requirements. The District was exempted from this requirement based on the now-outdated notion that the District is too congested and small to house these appointed officials. Congresswoman Norton emphasized that the District deserves the same type of community involvement and direct engagement by its federal officials. This bill will ensure that federal officials live among the residents which they have been appointed to represent.
- Introduced a bill to extend the District of Columbia's lease with the National Park Service to use the land under Robert F. Kennedy (RFK) Memorial Stadium by 50 years, for a total period of 100 years. The lease extension will provide the long-term stability required to get financing and redevelop the RFK site to include more green space for public use, sports fields, pedestrian bridges; and to connect the area to Wards 7 and 8, and establish a memorial more fitting to the legacy of Robert F. Kennedy.

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) four discretely presented component units: Health Benefit Exchange Authority, Housing Finance Agency, University of the District of Columbia, and Washington Convention and Sports Authority (t/a Events DC) and; (3) two blended component units: the Tobacco Settlement Financing Corporation and Not-for-Profit Hospital Corporation (d/b/a United Medical Center). 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 and a multi-year capital improvements plan by project for the upcoming fiscal year to the Council for review and approval. The Council holds public hearings and adopts the operating budget and capital improvements plan 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.

Budgetary Controls

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 subsequently challenged in the U.S. District Court for the District of Columbia (District Court), which concluded that this Act was unlawful and therefore, prohibited its enforcement. Upon appeal, the U.S. Court of Appeals for the District of Columbia legally

voided the decision of the District Court and sent the case to the District of Columbia Superior Court, where the legality of the Local Budget Autonomy Amendment Act was ratified.

The District utilizes budgetary controls designed to monitor compliance with expenditure limitations contained in the adopted budget. 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 adopted budget. 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 agency heads and Agency Fiscal Officers to jointly submit a monthly spending plan for the fiscal year to the District's Chief Financial Officer (CFO) by October 1st of each fiscal year. Other reporting requirements have also been established to enhance the District's budgetary control policies and practices. District managers 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 CFO no later than 30 days after the end of each month. 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 Funds or the Special Revenue Funds.

Fund Balance Reserves:

Congressionally Mandated

Through Congressional mandate established by Section 450A of the Home Rule Act (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 CFO to cover cash flow needs, provided that the reserve account shall be replenished in the same fiscal year that amounts were used. 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, it 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance/net position, 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 Other Post Employment Benefits (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** – Differences that arise when the basis of budgeting differs from the basis of accounting prescribed by GAAP. 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** – Differences between the basis of budgeting and GAAP arising because: (1) the appropriated budget includes organizations, programs, activities, or functions that are not within the financial reporting entity as defined by GAAP or (2) the appropriated budget excludes organizations, programs, activities or functions that are part of the financial reporting entity. The District does not have any significant entity differences that limit its ability to present budgetary comparisons of its general fund.

- **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.
- **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 Office of the Chief Financial Officer (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, and Unclaimed Property Division. 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 2017, employment within the District continued to increase with almost all of the net additional jobs being in the private sector. 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 2012 and 2017), the District’s population has grown by almost 58,000, an increase that has averaged about 970 residents per month over that period of time. The District’s private sector has grown along with sustained growth in the national economy.

Federal civilian employment accounts for 24.90% of all wage and salary jobs located in the District and 31.30% of the amount of wages and salaries that are generated in the city. Approximately 13.00% 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 fiscal year 2017, 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 fiscal year 2018 and continue through fiscal year 2023, unless Congress once again lifts these limits. Spending policies related to reducing federal debt remains an unresolved issue.

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 2017, there were 13,133 (1.70%) more wage and salary jobs located in the District than a year earlier. Of particular note, there were 900 (0.50%) fewer federal government jobs in September than there were a year earlier, while the private sector jobs increased by 13,500 (2.50%).
- District resident employment in the three months ended September 2017 was 5,036 (1.40%) more than a year earlier.
- The September unemployment rate was 6.50% (seasonally adjusted), an increase from 5.90% a year ago.

- Wages earned in the District of Columbia grew 2.10% in the quarter ended September 30, 2017, compared to the same quarter a year ago. Personal income in the District was 2.20% higher on September 30, 2017, compared to the same time one year ago.
- Single family sales for the three-month period ended September 2017 were up 2.50% from a year ago; however, the average selling price was down by 0.10%. Condominium sales were up 0.80%, while the average price was 2.20% lower. The value of all home sale settled contracts for the three-month period ended September 2017 was 1.00% more than a year ago.
- Commercial office effective rents edged up over the past year. Leased space in September 2017 was down 0.40% from a year ago, while the vacancy rate (including sublets) fell over the past year from 11.60% to 11.30%.
- Hotel room-days sold for the three months ended September 2017 were up 3.10% from the prior year, and hotel room revenues were up by 2.00%.

Key Factors in the District's Economy

Population

The U.S. Census Bureau estimated that there were 693,972 residents in the District of Columbia, as of July 1, 2017. This represents an increase of 9,636 or 1.41%, from the revised July 1, 2016 estimate of 684,336. 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. On an annual basis, the U.S. Census Bureau releases revised population estimates. **Chart T1** presents the District's population trends for calendar years 2013 through 2017, using annually revised census data.

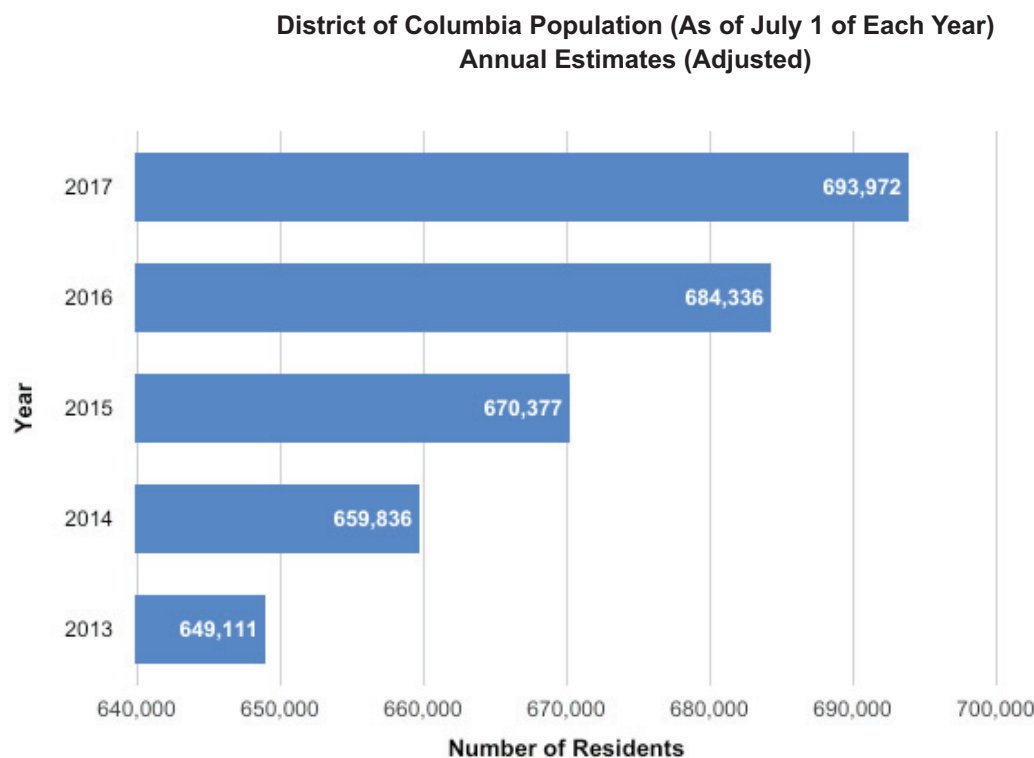
Income Trends

Income has grown considerably in the District in recent years. From the third quarter of calendar year 2012 to the third quarter of 2017, personal income grew approximately 23.30% in the District as compared to 16.30% 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 2017; however, for 2016, the District's median household income of \$75,506 was 31.00% above the U.S. average. The Census Bureau estimates that 18.60% of the District's population was below the poverty line in 2016 as compared to 14.00% for all of the U.S.

Chart T1 – Population Trends (2013 - 2017)



Source: U.S. Census Bureau

Employment Trends

Total wage and salary employment in the Washington metropolitan area increased to approximately 3,286,000 at the end of fiscal year 2017 from the revised 3,241,500 for fiscal year 2016, representing a 1.37% 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 2016 employment numbers may differ from those presented in the fiscal year 2016 CAFR because of updates and revisions. **Table T2** presents 2017 labor market data for the District and the surrounding metropolitan region.

In September 2017, total wage and salary employment within the District was 24.03% of the metropolitan area's total wage and salary employment. The seasonally adjusted September 2017 unemployment

rate in the District was 6.50%, compared to the September 2016 revised seasonally adjusted rate of 5.90%.

Total employment within the District increased to 789,500 as of September 2017 from the revised 784,000 as of September 2016. 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 2017 federal workforce in the Washington metropolitan area was 365,100; with approximately 197,400 federal employees located in Washington, D.C. and 167,700 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. Therefore, effective July 24, 2009, the District's minimum wage rate increased to \$8.25 per hour and remained at that level for several years.

In December 2013, the Council approved a measure to raise the District's minimum wage 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.

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.

Consequently, effective July 1, 2017, the District's minimum wage rate increased to \$12.50 per hour.

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, 2017, the District living wage rate is \$13.95 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 - 2017 Labor Market Data for the District and Surrounding Metropolitan Area

Labor Market (000s): FY 2017

Item	District of Columbia			Metropolitan Area		
	Level	1 yr. change (number)	1 yr. change (%)	Level	1 yr. change (number)	1 yr. change (%)
Employed residents	371.1	4.2	1.2	3,280.6	94.0	2.9
Labor force	399.1	8.2	2.1	3,402.9	86.1	2.6
Total wage and salary employment	789.5	5.5	0.7	3,286.0	44.5	1.4
Federal government	197.4	(1.1)	(0.6)	365.1	(1.6)	(4.0)
Local government	40.5	1.0	2.5	334.1	3.9	1.2
Leisure and hospitality	80.6	4.3	5.6	333.2	9.5	2.9
Trade	27.4	(0.3)	(1.1)	341.3	2.6	0.8
Education and health	136.6	0.1	0.1	444.1	6.1	1.4
Professional, business, and other services	239.5	2.0	0.8	953.5	19.2	2.1
Other private	67.5	(0.5)	(0.7)	514.7	4.8	0.9
Unemployed	28.1	4.0	16.5	122.3	(7.9)	(6.1)
New unemployment claims	1.3	0.1	5.1	(a)	(a)	(a)

Sources: U.S. Bureau of Labor Statistics (BLS) & D.C. Department 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.

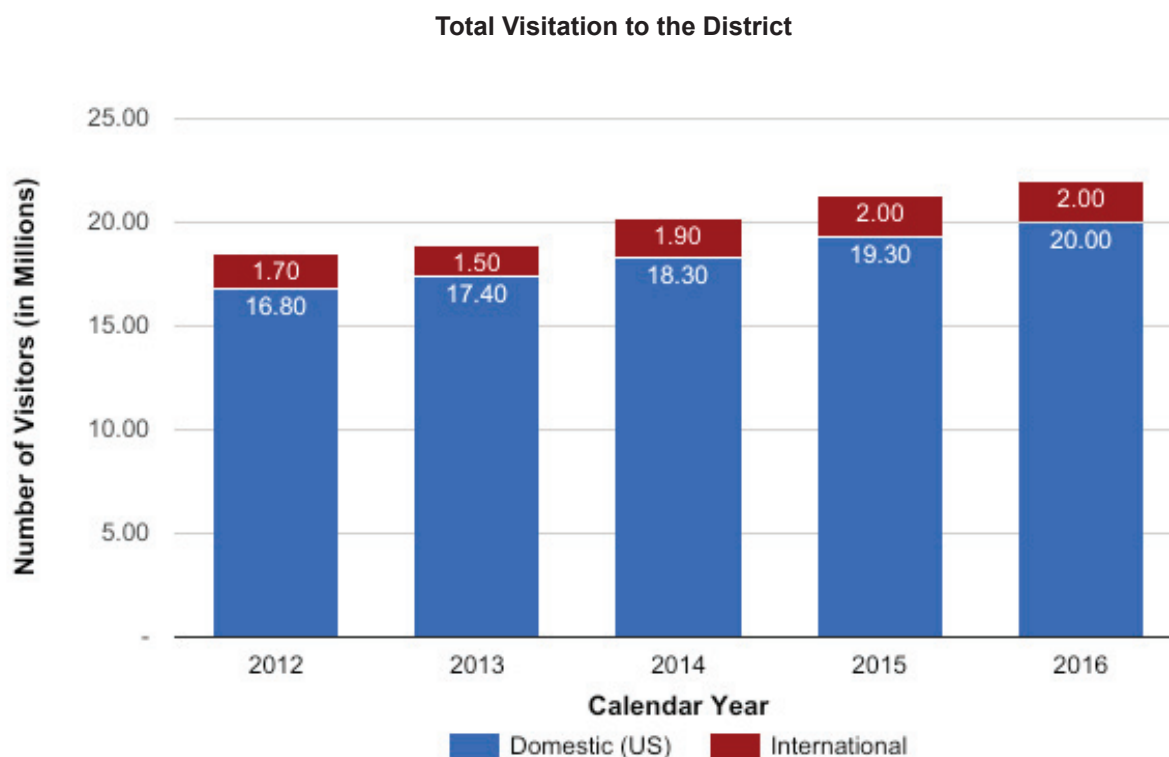
Tourism and Hospitality

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 2016, approximately 20 million domestic visitors and 2 million international visitors traveled to the District. During calendar year 2016, 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 2012 through 2016. Tourism data for

calendar year 2017 is not yet available.

Visitor spending, which totaled approximately \$7.32 billion in 2016, 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 2016 (by category) was as follows: \$2.51 billion for Lodging; \$2.10 billion for Food and Beverage; \$1.21 billion for Entertainment; \$891 million for Shopping/Retail; and \$604 million for Transportation. Total visitor spending increased by \$219 million, or 3.09%, over the prior year. Hotel occupancy was approximately 81.80% as of September 30, 2017. Travel and tourism supported 74,654 jobs in the District, generating approximately \$4.01 billion in wages.

Chart T2 – Trends in District Tourism (2012 – 2016)



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

Construction – Commercial Real Estate

Construction of commercial real estate surged during calendar year 2017. As of September 30, 2017, commercial space under construction in the District totaled 6.47 million square feet as compared to 5.87 million square feet at the end of September 2016. Over the one-year period between 2016 and 2017, occupied Class A commercial office space increased from 78.19 million square feet to 80.00 million square feet and the vacancy rate within the District remained steady at 12.70% in September 2017 as in September 2016.

Construction – Housing Units

For the 12-month period ended September 30, 2017, 4,026 housing unit building permits were issued. This represents a 21.50% decrease over the prior 12-month period. **Table T3** presents the number of apartment units located in the District in 2013 through 2017.

In calendar year 2017, there were 184,404 apartment units in the District, of which 174,917, or 94.86%, were occupied. In September 2017, 13,022 apartment units were under construction.

Table T3 – District Apartment Units (2013 - 2017)

	2013	2014	2015	2016	2017
Inventory	167,181	171,919	175,066	179,664	184,404
Occupied units	157,804	162,269	166,849	170,185	174,917

Source: CoStar - prior years' data have been revised and include units in private buildings with 5 or more units

Housing Production Trust Fund

The Department of Housing and Community Development (DHCD) administers the Housing Production Trust Fund (HPTF), a special revenue fund which was established in 1988 to produce and preserve affordable housing in the District by providing various forms of assistance in support of housing production for targeted populations.

In fiscal year 2017, DHCD used HPTF funding to finance 32 projects that produced or preserved 1,907 housing units in the District. The total amount of HPTF funding expended in fiscal year 2017 was approximately \$124.5 million. The projects financed included seven new construction projects, eight substantial rehabilitation projects, 13 Tenant Opportunity to Purchase Act (TOPA) Acquisition and Critical Repairs, one acquisition, two loan modifications and one refinancing.

At the end of fiscal year 2017, projects approved for implementation by DHCD included 24 housing projects which are supported by the HPTF and will produce or preserve 1,546 housing units, when completed. The total amount of HPTF funding to be expended for these projects is approximately \$170 million. The 24 projects include eight new construction projects, 12 substantial rehabilitation projects, three Tenant Opportunity to Purchase Act (TOPA) Acquisition and Critical Repairs, and one acquisition.

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				
	2013	2014	2015	2016	2017
Fitch Ratings	AA-	AA	AA	AA	AA
Moody's Investors Service	Aa2	Aa2	Aa1	Aa1	Aa1
Standard & Poor's Rating Service	AA-	AA	AA	AA	AA
	Income Tax Secured Revenue Bonds				
	2013	2014	2015	2016	2017
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 – Projects Completed (by Economic Sector)

Project	Location	Square Footage/ Units	Estimated Value (in \$000s)	Delivery Date (Calendar Year Basis)
Retail:				
ART Place at Fort Totten (Phase I)	5180 South Dakota Avenue, N.E.	104,701	\$135,000	3rd Qtr 2017
Uline Arena	1140 3rd Street, N.E.	73,057	\$125,000	4th Qtr 2016
Apollo	610 H Street, N.E.	59,000	\$195,000	4th Qtr 2016
Office:				
CFPB HQ Modernization	1700 G Street, N.W.	503,000	\$139,000	4th Qtr 2017
Residential:				
ART Place at Fort Totten (Phase I)	5180 South Dakota Avenue, N.E.	520 units	\$135,000	3rd Qtr 2017
AVA NoMa	55 M Street, N.E.	438 units	\$145,000	1st Qtr 2017
Apollo	610 H Street, N.E.	431 units	\$195,000	4th Qtr 2016
Camden NoMa (Phase II)	61 Pierce Street, N.E.	405 units	\$70,000	1st Qtr 2017
909 Half Street	20 K Street, S.E.	383 units	\$100,000	1st Qtr 2017
Agora	800 New Jersey Avenue, S.E.	334 units	\$141,000	4th Qtr 2017
Hospitality:				
Trump International Hotel (The Old Post Office)	1100 Pennsylvania Avenue, N.W.	536,000	\$200,000	3rd Qtr 2016
National Museum of African-American History & Culture	The National Mall	409,000	\$385,000	3rd Qtr 2016
F1rst	1st & N Street, S.E.	127,200	\$150,000	1st Qtr 2017
The Line DC	1780 Columbia Road, N.W.	176,671	\$100,000	1st Qtr 2017
Education and Medical:				
Watkins Elementary School	420 12th Street, S.E.	70,826	\$44,000	3rd Qtr 2017
Marie Reed Elementary School	2201 18th Street, N.W.	140,000	\$62,000	3rd Qtr 2017
MSSD Residence Hall	800 Florida Avenue, N.E.	68,500	\$28,000	4th Qtr 2016

Source: Washington, DC Development Report 2017/2018 Edition.

Table T6 – Projects Under Construction (by Economic Sector)

Project	Location	Square Footage/ Units	Estimated Value (in \$000s)	Estimated Delivery Date (Calendar Year Basis)
Retail:				
655 New York Avenue	655 New York Avenue, N.W.	80,551	\$185,000	2nd Qtr 2018
The Wharf (Phase I)	Southwest Waterfront	190,000	\$1,326,000	4th Qtr 2017
Skyland Town Center (Phase I - Block 2)	Alabama Avenue & Naylor Road, S.E.	117,000	\$175,000	2020
700 Penn	700 Pennsylvania Avenue, S.E.	60,000	\$227,000	4th Qtr 2017
McMillan Sand Filtration Site	North Capitol Street & Michigan Avenue, N.W.	80,000	\$720,000	2021
Midtown Center	1150 15th Street, N.W.	44,000	\$350,000	2nd Qtr 2018
Office:				
Midtown Center	1150 15th Street, N.W.	821,000	\$350,000	2nd Qtr 2018
655 New York Avenue	655 New York Avenue, N.W.	653,474	\$185,000	2nd Qtr 2018
200 Massachusetts Avenue	200 Massachusetts Avenue, N.W.	381,746	\$200,000	2nd Qtr 2018
One Freedom Plaza	1301 Pennsylvania Avenue, N.W.	270,040	Not provided	1st Qtr 2019
2112 Pennsylvania Avenue	2110 Pennsylvania Avenue, N.W.	243,500	\$125,000	4th Qtr 2017
99 M Street	1st Street & M Street, S.E.	215,000	\$116,000	1st Qtr 2018
Center Building (DHS HQ)	St. Elizabeths West Campus	284,000	\$155,000	4th Qtr 2017
The Wharf (Phase I)	Southwest Waterfront	500,000	\$1,326,000	4th Qtr 2017
Capitol Crossing (North Block)	I-395 at 3rd, E & Massachusetts Avenue, N.W.	954,000	\$725,000	4th Qtr 2019
Residential:				
Shapiro Residences	1270 4th Street, N.E.	432 units	\$150,000	4th Qtr 2018
The Belgard	33 N Street, N.E.	346 units	\$150,000	1st Qtr 2018
The Wharf (Phase I)	Southwest Waterfront	870 units	\$1,326,000	4th Qtr 2017
Hospitality:				
CityCenterDC (Conrad Hotel)	950 New York Avenue, N.W.	358,000	\$270,000	1st Qtr 2019
D.C. United Stadium	100 Potomac Avenue, S.W.	421,000	\$287,000	2nd Qtr 2018
Columbia Place	901 L Street, N.W.	350,000	\$225,000	3rd Qtr 2018
International Spy Museum	900 L'Enfant Plaza, S.W.	140,000	\$162,000	3rd Qtr 2018
The Wharf (Phase I)	Southwest Waterfront	630,000	\$1,326,000	4th Qtr 2017
Education and Medical:				
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.	1,017,500	\$720,000	2021
Corcoran Gallery of Art	500 17th Street, N.W.	100,000	\$80,000	2nd Qtr 2018
The Conway Center	4430 Benning Road, N.E.	37,700	\$90,000	4th Qtr 2017
THE ARC (Phase III)	18th Street & Mississippi Avenue, S.E.	67,340	\$34,000	4th Qtr 2017

Source: Washington, D.C. Development Report 2017/2018 Edition.

Office, Residential, Sports, Medical and Hospitality Projects:

- **Capitol Crossing**

The \$1.3 billion Capitol Crossing project is one of the District's largest private development projects 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. Once it is complete, the project is expected to generate about \$40 million in property tax revenue every year, 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 and the entire project is to be completed in 2020.

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

The Wharf is one of the region's largest redevelopment opportunities which is transforming 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. The 3.2 million square-foot site features 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 and a commercial anchor for the community and those who visit the nation's capital's monuments and museums.

Phase I consists of a building area of more than 1.9 million square feet, and includes: 872 residential units; 90,000 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.

The Wharf is now open and planning is ongoing for its next and final phase. When complete, Phase II will feature 1.15 million square feet of additional mixed-use development, including office, residential, marina, and retail space, as well as parks and public spaces, across an approximate half mile of waterfront. Groundbreaking of Phase II is scheduled for mid-2018 and is expected to be completed in 2022.

- **Parks at Walter Reed Town Center**

In April 2017, the District broke ground on the Walter Reed Army Medical Center redevelopment project after signing the Walter Reed Development

Omnibus Act of 2016, which authorized the District to acquire 66 acres of the former Walter Reed campus from the Army and begin development of a vibrant new mixed-use community. Phase I of the 66-acre Parks at Walter Reed project involves infrastructure improvements across the historic campus and demolishing the main 2.7 million-square-foot 1970s-era hospital building, which will prepare the site for the development of the new town center.

The master development plan of the site, which is undertaken through a ground lease agreement by a joint venture consisting of Hines, Urban Atlantic and Triden, is expected to transform the 3.1 million square-foot site over the years. The project features 1,560 apartments, 550 condos, 96 townhouses and 2-over-2 units, 432 of which will be affordable housing; 200,000 square feet of office and medical space; 240,000 square feet of retail; and a 200-room Hyatt hotel. In addition, approximately 30,000 square feet of space will be dedicated to creative and cultural uses across the area while preserving significant historic buildings along with roughly 20 acres of open space, community parks and plazas.

The redevelopment project is set to balance the homeless assistance needs with the economic redevelopment needs of the community by including State and Local Homeless Assistance Providers and Public Benefit Conveyance, collectively referred to as Notices of Interest (NOI) organizations. The project will also feature an Innovation Core that consists of forward-thinking companies in university medical research, bioscience and pharmaceutical spaces, as well as economic development and sustainability programs. At over \$1 billion in direct investment, the Parks at Walter Reed will serve as a major economic engine for the Washington, D.C. region, generating thousands of jobs and tens of millions in annual revenues.

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

In February 2017, District officials broke ground on a new world-class stadium for the second time. The new stadium for Major League Soccer team D.C. United will be built at Second, T, and R Streets and Potomac Avenue, S.W., just across South Capitol Street from Nationals Park baseball stadium. D.C. United made a multiyear deal with Audi for stadium naming rights requiring Audi to pay \$4 million a year for 10 to 15 years.

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 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 Stadium is scheduled to open

in June 2018.

- **Alexander Court**

The Alexander Court project features an eye-catching 12-story atrium that serves as the connective tissue between two buildings: 1) 2001 K Street, N.W. and 2) 2000 L Street, N.W., in downtown, DC. The 800,000 square-foot office building project consists of an expansion and renovation of both buildings, which will set the stage for a four-story addition, raising the 2000 L Street building to a dozen stories and featuring floor-to-ceiling glass windows. Atop that will be an enclosed rooftop conference center designed to be used year-round and connected via an accordion-style door that opens up onto an outdoor terrace. Other amenities will include a 7,500 square-foot state-of-the-art fitness center and a wine and coffee bar.

Joining the two buildings also allows Alexander Court to have interconnected entrance lobbies from L, 20th and K Streets. The Alexander Court project is expected to be completed in 2018 and will feature improvements to the vertical transportation systems, mechanical, electrical and plumbing building systems, new storefronts, canopies and interior finishes.

Transportation and Other Projects:

- **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, S.E.
- 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. The Frederick Douglass Memorial Bridge is projected to open in 2021.

- **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 fee” 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 2017, the District collected approximately \$2.5 million in bag fees. Since the inception of the tax in 2010, the District has collected approximately \$16.9 million in such fees.

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: <https://dmped.dc.gov>
- **Office of Planning**
1100 Fourth Street, S.W., Suite E650
Washington, DC 20024
Telephone: (202) 442-7600
Website: <https://planning.dc.gov>
- **Office of Tax and Revenue**
1101 Fourth Street, S.W., Suite 270
Washington, DC 20024
Telephone: (202) 727-4829
Website: <https://otr.cfo.dc.gov>
- **Department of General Services**
2000 14th Street, N.W., 8th Floor
Washington, DC 20009
Telephone: (202) 727-2800
Website: <https://dgs.dc.gov>
- **Department of Housing and Community Development**
1800 Martin Luther King Avenue, S.E.
Washington, DC 20020
Telephone: (202) 442-7200
Website: <https://dhcd.dc.gov>
- **Department of Parks and Recreation**
1250 U Street, N.W. 2nd Floor
Washington, DC 20009
Telephone: (202) 673-7647
Website: <https://dpr.dc.gov>
- **District Department of Transportation**
55 M Street, S.E., Suite 400
Washington, DC 20003
Telephone: (202) 673-6813
Website: <https://ddot.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 CAFR for the fiscal year ended September 30, 2016. The District has received this award for 33 of the last 35 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 2017 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 the GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the fiscal year ended September 30, 2016, for the fourteenth 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 2017 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, Cassandra Butler, 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 P.C. and GKA P.C., for their efforts throughout the audit engagement.

Respectfully submitted,



Bill Slack
Deputy Chief Financial Officer and Controller
Office of Financial Operations and Systems