

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2019

(Dollar amounts expressed in thousands)

The following is a discussion and analysis of the District of Columbia's (the District's) financial performance for the fiscal year ended September 30, 2019, which includes a narrative overview and analysis of the District's financial activities. This information should be read in conjunction with the letter of transmittal, located in the Introductory Section of this report, and the District's basic financial statements and notes to the basic financial statements, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

- During fiscal year 2019, total District revenues increased by \$1,334,655 which was comprised of \$514,913 in program revenues and \$819,742 in general revenues. Program revenues increased as a result of: increases in federal and private contributions in support of District programs and activities; higher fees and charges for services revenues caused by improved collectability of receivables; fees collected for the newly implemented Universal Paid Leave program; increases in revenues from private for-hire vehicles as a result of rate increases; and higher fines revenues due to the implementation of construction zone speed cameras. General revenues, which are comprised mainly of taxes, increased as a result of tax rate increases and several favorable economic factors including: growth in the District's tax base due to the increase in population; rising salary and wage levels; improvement in business conditions; a strong stock market; and higher assessed values of real property. The most significant increase in taxes was in income and franchise taxes which rose by \$302,599. (See **Table MDA-2**)
- District expenses increased by \$525,801 during fiscal year 2019 as a result of significant increases in spending in Human Support Services and Public Education. (See **Table MDA-2**)
- As of September 30, 2019, the District's assets plus deferred outflows of resources exceeded its liabilities plus deferred inflows of resources by \$6,658,937. The District had an unrestricted net position of \$711,844 in fiscal year 2019, an improvement of \$751,938 over the previous year, as a result of significant increases in revenues over expenses. (See **Table MDA-1**)
- The District's total net position increased by \$971,624, or 17.08%, primarily because total revenues exceeded expenses at the end of the fiscal year. Revenues from income and franchise taxes, operating grants and contributions, and charges for services increased significantly over the one-year period. Although expenses also increased in fiscal year 2019, they were substantially less than revenues and below budgeted levels due to prudent and effective management of District resources. (See **Table MDA-2**)
- The District's total long-term liabilities increased by \$805,137, or 6.65%, during fiscal year 2019. This increase is mainly due to the issuance of General Obligation Bonds and General Obligation Bond Anticipation Notes to finance capital improvement projects. (See **Table MDA-1**)
- Total fund balance for all governmental funds was \$3,579,644, an increase of \$685,872, or 23.70%, in comparison to the prior year. Increases in the fund balance of the governmental funds were mainly in the General Capital Improvements Fund and the General Fund. During fiscal year 2019, capital projects were financed through the use of debt proceeds and short-term advances from the General Fund. This financing strategy allowed the District to optimize the timing of the issuance of new debt to finance capital projects and reimburse internal financing resources. As of September 30, 2019, the District reported an increase in fund balance in its General Fund of \$476,933. (See **Table MDA-3**)

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

In general, the purpose of financial reporting is to provide users of financial statements with information that will help them make decisions or reach conclusions about a reporting entity. Many parties use the District's financial statements; however, they do not always use them for the same purpose. In order to address the needs of as many financial statement users as possible, the District, in accordance with generally accepted accounting principles (GAAP) presents: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements.

Government – Wide Financial Statements

The government-wide financial statements focus on the District's overall financial position and activities, and include a Statement of Net Position and a Statement of Activities. These financial statements report on the primary government and its component units, which are aggregated into separate columns. The primary government is further divided into governmental activities and business-type activities.

The purpose of the Statement of Net Position is to report all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the fiscal year. The difference between the District's total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources is classified as net position. Total net position is comprised of three components: (1) net investment in capital assets; (2) restricted; and (3) unrestricted. In general, gauging increases or decreases in net position is one way to assess the District's financial position over time. Other factors, such as changes in population, the property tax base, infrastructure conditions, and other non-financial matters, should also be considered when assessing the District's overall financial health.

The purpose of the Statement of Activities is to present the District's revenues and expenses. The difference between revenues and expenses is reported as "change in net position". All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement also include items that will result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The Statement of Activities summarizes both the gross and net cost of the governmental activities and business-type activities. Governmental activities include the District's basic functional services which are generally financed through taxes, intergovernmental revenues and other revenues. Business-type activities include enterprise operations of the Office of Lottery

and Gaming, the Unemployment Compensation Fund, and the Not-for-Profit Hospital Corporation, which are primarily funded by fees for services. Such fees are expected to cover all or most of the costs of operations, including depreciation. Program or functional expenses are reduced by program-specific earned revenues, and by grants and contributions.

The District's government-wide financial statements are presented in Exhibits 1-a and 1-b on pages 50 and 51.

Fund Financial Statements

Unlike the government-wide financial statements, the fund financial statements focus on specific District activities rather than the District as a whole. Specific funds are established to maintain managerial control over resources or to comply with legal requirements established by external parties, governmental statutes, or regulations. The District's fund financial statements are divided into three categories: (1) governmental funds; (2) proprietary funds; and (3) fiduciary funds.

Financial Statements of the Governmental Funds

Financial statements of the governmental funds consist of a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances. These statements are prepared using a basis of accounting which differs from that used to prepare the government-wide statements. Financial statements of the governmental funds focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting. However, the government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting. Financial statements of the governmental funds have a short-term emphasis, and generally measure and account for cash and other assets that can easily be converted to cash. As such, these statements present the District's financial position at the end of the fiscal year and how the governmental activities were financed during the year.

The balances and activities accounted for in the governmental funds are also reported in the governmental activities column of the government-wide financial statements; however, because different accounting bases are used to prepare fund financial statements and government-wide financial statements, there are often significant differences in the totals presented in these statements. Therefore, an analysis is presented at the bottom of the balance sheet of the governmental funds, which reconciles the total fund balances to the amount of net position presented in the governmental activities column of the Statement of Net Position. In addition, there is an analysis following the Statement of Revenues,

Expenditures, and Changes in Fund Balances that reconciles the total net change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column of the government-wide Statement of Activities.

The Balance Sheet of the governmental funds presents the District's nonspendable fund balance and further classifies spendable fund balance as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts may be used.

The District presents funds that are significant to the District (major funds) in separate columns. All other governmental funds are aggregated and reported in a single column (nonmajor funds).

The financial statements of the District's governmental funds are presented in Exhibits 2-a, 2-b, and 2-c on pages 52 through 55 of this report.

Financial Statements of the Proprietary Funds

Financial statements of the proprietary funds consist of a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Fund Net Position; and a Statement of Cash Flows. These statements are prepared using the full accrual basis of accounting similar to that used to prepare the government-wide financial statements.

The District's proprietary funds are used to account for the activities of District entities that charge customers fees for the services provided. Two of the District's three major proprietary funds, the Office of Lottery and Gaming and the Not-for-Profit Hospital Corporation, are in this category. The Unemployment Compensation Fund is also reported as a proprietary fund, similar to a public entity risk pool, because the District is required by law to recover its costs.

The financial statements of the District's proprietary funds present the changes in financial position and condition of these three major proprietary funds. The financial statements of the District's proprietary funds are presented in Exhibits 3-a, 3-b, and 3-c on pages 56 through 58 of this report.

Financial Statements of the Fiduciary Funds

Financial statements of the fiduciary funds are comprised of the Pension and Other Postemployment Benefits Trust Funds, Private-Purpose Trust Fund, and Agency Funds. The financial statements of all fiduciary funds, except the agency funds, consist of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The agency

funds report only assets and liabilities and do not report net position, since they account for funds held by the government in a purely custodial capacity.

The fiduciary fund statements are prepared using the full accrual basis of accounting similar to that used to prepare the government-wide financial statements. Assets held by the District (either as a trustee or an agent) for other parties, that cannot be used to finance the District's operating programs, are reported in the fiduciary funds. The District is responsible for ensuring that the activities reported in the fiduciary funds are consistent with each fund's intended purpose.

The financial statements of the District's fiduciary funds are presented in Exhibits 4-a and 4-b on pages 59 and 60 of this report.

Component Units

The District's discretely presented component units' financial data, which is reported in combining financial statements, is presented in Exhibits 5-a and 5-b on pages 61 and 62. The District also reports two blended component units: the Not-for-Profit Hospital Corporation presented within the statements for proprietary funds; and the Tobacco Settlement Financing Corporation presented within the statements for nonmajor governmental funds.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements, which begin on page 63, present additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress toward funding its obligation to provide pension and other postemployment benefits to District employees. Required supplementary information can be found on pages 147 through 153 of this report.

Financial statements of individual funds, combining statements (including nonmajor governmental funds), and supporting schedules are presented in the other supplementary information section presented on pages 155 through 185 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND OPERATIONS

The District's overall financial position improved as a result of the fiscal year's activities. The District's financial position and operations for the past two fiscal years are summarized in **Tables MDA-1** and **MDA-2**. The information for fiscal years 2019 and 2018 is based on the government-wide financial statements presented on pages 50 and 51 of this report.

Table MDA-1
Net Position as of September 30, 2019 (\$000s)

	Governmental activities		Business-type activities		Totals		
	2019	2018	2019	2018	2019	2018	Variance
ASSETS							
Current and other assets	\$ 6,479,313	\$ 5,600,915	\$ 594,466	\$ 542,985	\$ 7,073,779	\$ 6,143,900	\$ 929,879
Capital assets	14,534,439	13,762,660	68,849	72,469	14,603,288	13,835,129	768,159
Total assets	21,013,752	19,363,575	663,315	615,454	21,677,067	19,979,029	1,698,038
DEFERRED OUTFLOWS OF RESOURCES	251,997	330,497	-	-	251,997	330,497	(78,500)
LIABILITIES							
Long-term liabilities	12,910,442	12,107,920	9,885	7,270	12,920,327	12,115,190	805,137
Other liabilities	2,008,918	1,823,683	67,439	72,272	2,076,357	1,895,955	180,402
Total liabilities	14,919,360	13,931,603	77,324	79,542	14,996,684	14,011,145	985,539
DEFERRED INFLOWS OF RESOURCES	273,443	611,068	-	-	273,443	611,068	(337,625)
NET POSITION							
Net investment in capital assets	3,571,065	3,467,965	68,849	72,469	3,639,914	3,540,434	99,480
Restricted	1,803,748	1,727,770	503,431	459,203	2,307,179	2,186,973	120,206
Unrestricted	698,133	(44,334)	13,711	4,240	711,844	(40,094)	751,938
Total net position	\$ 6,072,946	\$ 5,151,401	\$ 585,991	\$ 535,912	\$ 6,658,937	\$ 5,687,313	\$ 971,624

Table MDA-2
Change in Net Position for the Year Ended September 30, 2019 (\$000s)

	Governmental activities		Business-type activities		Totals		
	2019	2018	2019	2018	2019	2018	Variance
REVENUES							
Program revenues							
Charges for services	\$ 869,744	\$ 608,050	\$ 323,407	\$ 307,189	\$ 1,193,151	\$ 915,239	\$ 277,912
Operating grants and contributions	3,916,440	3,674,019	18,319	20,789	3,934,759	3,694,808	239,951
Capital grants and contributions	258,500	261,450	-	-	258,500	261,450	(2,950)
General revenues							
Property taxes	2,888,245	2,713,310	-	-	2,888,245	2,713,310	174,935
Sales and use taxes	1,707,745	1,597,940	-	-	1,707,745	1,597,940	109,805
Income and franchise taxes	2,969,289	2,666,690	-	-	2,969,289	2,666,690	302,599
Other taxes	981,113	876,597	142,877	144,068	1,123,990	1,020,665	103,325
Non-tax revenues	664,420	536,715	12,416	11,043	676,836	547,758	129,078
Total revenues	14,255,496	12,934,771	497,019	483,089	14,752,515	13,417,860	1,334,655
EXPENSES							
Governmental direction and support	1,157,810	1,164,181	-	-	1,157,810	1,164,181	(6,371)
Economic development and regulation	700,346	724,404	-	-	700,346	724,404	(24,058)
Public safety and justice	1,673,214	1,623,766	-	-	1,673,214	1,623,766	49,448
Public education system	2,949,935	2,834,186	-	-	2,949,935	2,834,186	115,749
Human support services	5,148,903	4,799,268	-	-	5,148,903	4,799,268	349,635
Public works	860,918	812,726	-	-	860,918	812,726	48,192
Public transportation	425,753	419,198	-	-	425,753	419,198	6,555
Interest on long-term debt	425,812	435,006	-	-	425,812	435,006	(9,194)
Office of lottery and gaming	-	-	168,454	161,397	168,454	161,397	7,057
Unemployment compensation	-	-	120,010	131,764	120,010	131,764	(11,754)
Not-for-profit hospital corporation	-	-	149,736	149,194	149,736	149,194	542
Total expenses	13,342,691	12,812,735	438,200	442,355	13,780,891	13,255,090	525,801
Increase in net position before transfers	912,805	122,036	58,819	40,734	971,624	162,770	808,854
Transfers in (out)	8,740	12,080	(8,740)	(12,080)	-	-	-
Change in net position	921,545	134,116	50,079	28,654	971,624	162,770	808,854
Net position - October 1	5,151,401	5,017,285	535,912	507,258	5,687,313	5,524,543	162,770
Net position - September 30	\$ 6,072,946	\$ 5,151,401	\$ 585,991	\$ 535,912	\$ 6,658,937	\$ 5,687,313	\$ 971,624

Refer to Note 1W - Reconciliation of Government-Wide and Fund Financial Statements, on page 83 for additional information on the differences between the two bases of accounting that the District used in this report.

Financial Analysis of the Government as a Whole

Revenues increased by \$1,334,655 while expenses increased by \$525,801 in fiscal year 2019 compared to the prior year.

General revenue was 63.49% of the District's total revenues in fiscal year 2019, increased by \$819,742, or 9.59%. Revenues from individual income and franchise taxes, property taxes and various non-tax sources were the main drivers of the growth in general revenue. Higher than usual growth in individual income and franchise tax revenue was the result of low unemployment rate, strong wages and salaries growth, as well as higher capital gains stemming from record stock market performance. Increased franchise tax revenue reflects general improvement in economic environment, leading to increased profitability of District businesses. Changes in federal tax legislation also contributed to higher franchise tax revenue as it increased the taxable income of businesses. Real property tax revenue was higher because of increased assessed values and higher tax rates. Higher tax rates on high-value commercial real property transactions also contributed to higher general revenue.

Program revenues, which were 36.51% of the District's total revenues in fiscal year 2019, increased by \$514,913, or 10.57%. The increase was attributed, in part, to higher operating grants and contributions to support Human Support Services programs including Medicaid, Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF). Also contributing to the increase in program revenues were higher revenues from charges for services due to: the implementation of a new District-wide collection platform by the Central Collection Unit (CCU) that has improved the collectability of receivables; collection of fees related to the Universal Paid Leave program implemented in fiscal year 2019; the deployment of additional parking meters in the District's vibrant neighborhoods; the enforcement of road safety measures using photo radars in Interstate work zones which contributed to additional revenues from higher ticket issuances; and higher rate assessed on private for-hire vehicles.

Non-tax revenues increased as a result of the following factors: receipts from PEPCO cost-sharing arrangements, higher collection of license renewal service fees, and higher interest and investment

incomes. Transfers from the Washington Convention and Sports Authority (WCSA) also contributed to the increase in non-tax revenues. Consistent with D.C. Code § 10-1202.13, WCSA transferred excess funds totaling \$46,893 (\$19,802 for fiscal year 2018 and \$27,091 for fiscal year 2017) from its Convention Center Operating Fund to the District's General Fund.

The most significant increases in expenses were in Human Support Services and Public Education System, which grew by \$349,635, or 7.29%, and \$115,749, or 4.08%, respectively. Human Support Services' spending increased as a result of additional funding received to support the Medicaid program. The increase in Public Education System expenses resulted from an increase in the Uniform Per Student Funding rate due to higher student enrollment and expansion costs associated with afterschool and summer programs.

The District's combined net position (governmental and business-type activities) increased by \$971,624, or 17.08%, to \$6,658,937 in fiscal year 2019 from \$5,687,313 in fiscal year 2018.

Restricted net position represents assets that are subject to use constraints imposed either: (a) externally by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments; or (b) by law, through constitutional provisions or enabling legislation. Restricted net position totaled \$2,307,179 in fiscal year 2019 and \$2,186,973 in fiscal year 2018, representing an increase of \$120,206, or 5.50%. The most significant increase in restricted net position was related to amounts set aside for benefits payments associated with the Universal Paid Leave program.

Unrestricted net position increased by \$751,938 to \$711,844 in fiscal year 2019. The increase in unrestricted net position is mainly due to significant increases in current year's revenues over expenditures.

The Office of Lottery and Gaming (the Lottery), a proprietary fund of the primary government, transfers substantially all of its net income to the District at the end of each fiscal year. In fiscal years 2019 and 2018, the Lottery transferred \$45,050 and \$49,500 to the District's General Fund, respectively.

Chart MDA-1 graphically depicts the District's sources of revenues in its governmental activities.

Chart MDA-1
Revenues by Source - Governmental Activities (\$000s)

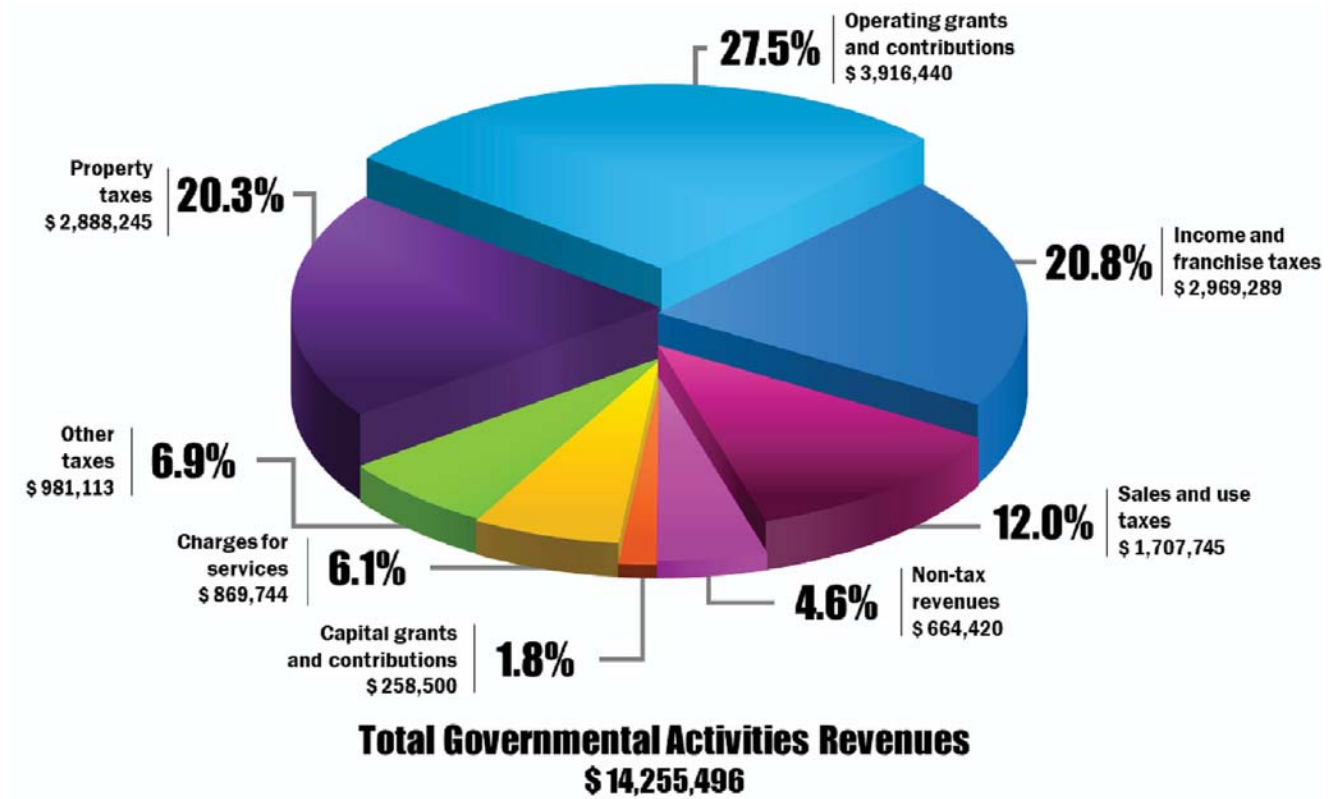
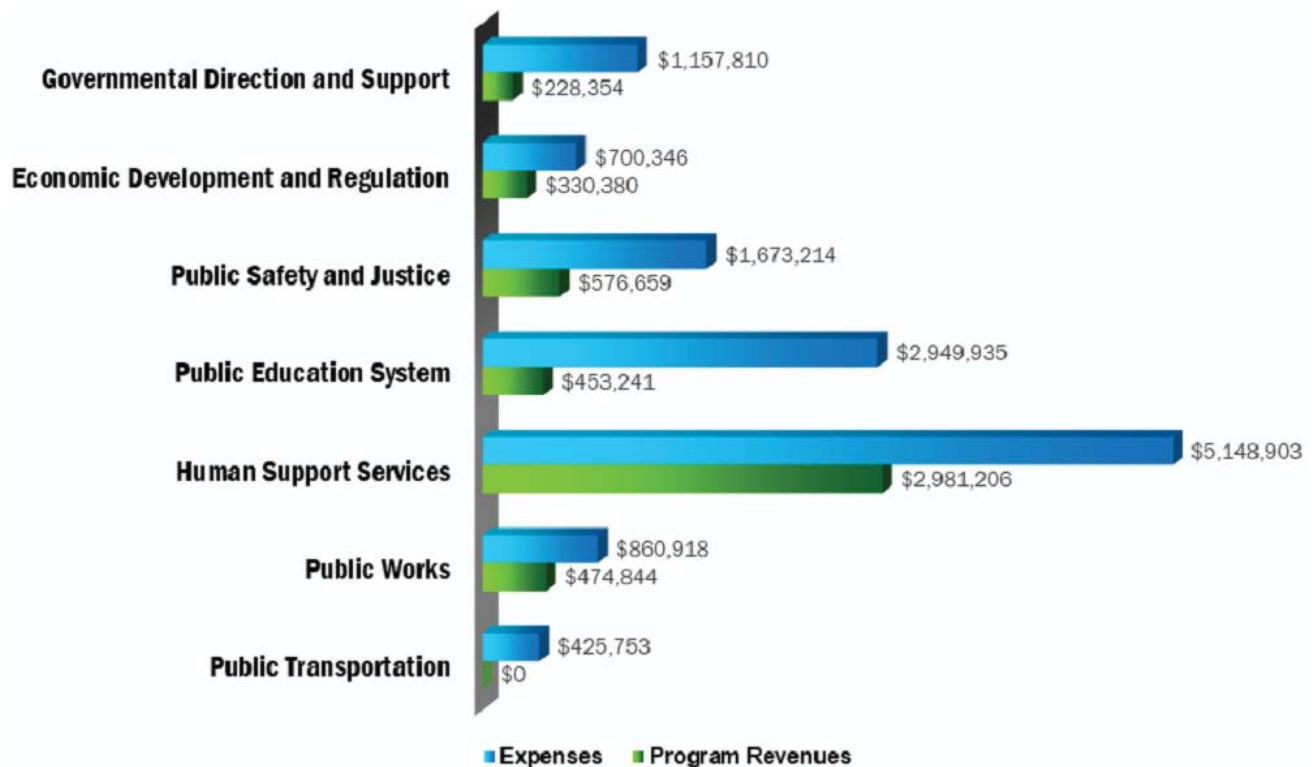


Chart MDA-2 displays both expenses and program revenues of the governmental activities for fiscal year 2019. The governmental activities are: Governmental Direction and Support, Economic Development and Regulation, Public Safety and Justice, Public Education System, Human Support Services, Public Works, and Public Transportation.

and Regulation, Public Safety and Justice, Public Education System, Human Support Services, Public Works, and Public Transportation.

Chart MDA-2
Governmental Activities Expenses and Program Revenues (\$000s)



Total net position of governmental activities was \$6,072,946 in fiscal year 2019, which was \$921,545, or 17.89%, higher than the amount in the prior year. This increase mainly resulted from increases in revenues from income and franchise taxes, operating grants and contributions, charges for services, and property taxes.

Net position of the business-type activities increased by \$50,079, or 9.34%, between fiscal year 2018 and 2019. Net position increased due to a decrease in unemployment compensation benefit payments and a reinstatement of disproportionate share revenue during the fiscal year. The Unemployment Compensation Fund's net position increased by \$52,656. The Not-for-Profit Hospital Corporation experienced a loss of \$2,612 for fiscal year 2019, which was an improvement from the \$10,896 loss in the fiscal year 2018. The Lottery's change in net position was \$35 after transferring \$45,050 to the District's General Fund.

Reporting on the District's Most Significant Funds

Fund financial statements focus on major funds, instead of fund types. Other than the General Fund, which is always classified as a major fund, any other governmental or proprietary fund is classified as a major fund if the fund has revenues, expenditures/expenses, assets plus deferred outflows of resources, or liabilities plus deferred inflows of resources that are at least 10% of the corresponding totals for all governmental or proprietary funds and at least 5% of the aggregate amount for all governmental and proprietary funds for the same item. Major funds, as required by generally accepted accounting principles (GAAP), are presented individually while nonmajor funds are combined in a single column. Detailed information for individual nonmajor governmental funds can be found in Other Supplementary Information, Exhibits B-1 and B-2, presented on pages 166 and 167.

Governmental Funds

The District's governmental funds provide information that is useful when assessing the District's financing needs, such as data pertaining to near-term inflows, outflows, and balances of spendable resources. Most basic services are reported in the governmental funds, which are further classified as General, Federal and Private Resources, Housing Production Trust, General Capital Improvements, and Nonmajor Governmental Funds. Exhibits 2-a and 2-b, presented on pages 52 and 53, provide information about these funds.

Fund Balances

The governmental funds reported a combined fund balance of \$3,579,644 in fiscal year 2019 and \$2,893,772 in fiscal year 2018, which represents an increase of \$685,872, or 23.70%, from the prior year. The components of the combined fund balances of the governmental funds are presented in **Table MDA-3**.

Table MDA-3
Comparison of FY 2019 and FY 2018 Fund Balances - Governmental Funds (\$000s)

Governmental funds	2019	2018	Dollar Variance	Percentage Variance
General	\$ 3,253,316	\$ 2,776,383	\$ 476,933	17.18%
Federal and private resources	150,240	133,067	17,173	12.91%
Housing production trust	142,940	167,397	(24,457)	-14.61%
General capital improvements	(378,421)	(522,345)	143,924	27.55%
Nonmajor governmental funds	411,569	339,270	72,299	21.31%
Total fund balances	\$ 3,579,644	\$ 2,893,772	\$ 685,872	23.70%

Fund balance in the Federal and Private Resources Fund increased by \$17,173, or 12.91%, between fiscal years 2018 and 2019. This increase in fund balance was due to increases in revenues, with expenditures also increasing but at a lesser rate. Revenues increased by \$243,303, or 6.56% over the one year period while expenditures increased by \$226,068 or 6.09%. The increase in revenues was mainly due to increases in operating grants and federal contributions totaling \$214,290 and \$28,131, respectively, which support Human Support Services and Public Education programs. Although Public Education expenditures decreased by \$18,701 during the fiscal year, Human Support Services expenditures increased by \$231,814. Many of the Human Support Services programs are supported by cost reimbursable grants from the federal government. Because the associated operating grant revenues depend upon the amount of reimbursable expenditures incurred, the increase in Human Support Services expenditures resulted in an increase in operating grants to support higher enrollments in the Medicaid program and increased administrative cost of operating the Medicaid, Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF).

Fund balance in the Housing Production Trust Fund decreased by \$24,457, or 14.61%, between fiscal years 2018 and 2019. This decrease was due to higher expenditures related to the Mayor's initiative to preserve and/or increase the supply of quality affordable housing for low-income families in the District. The Department of Housing and Community Development, which administers this initiative, had more housing projects in its pipeline for completion.

The negative fund balance of \$378,421 in General Capital Improvements Fund as of September 30, 2019 represents an increase of \$143,924, or 27.55%, from prior year negative fund balance of \$522,345. This improvement was mainly due to the issuance of bonds, the proceeds of which were used to fund capital projects.

The most significant fund balance increase within the governmental funds, which totaled \$476,933, was in the General Fund, the District's primary operating fund. A more detailed discussion of the District's General Fund follows.

Revenues

General Fund revenues increased by \$824,047 in fiscal year 2019. **Table MDA-4** presents the most significant variances in General Fund revenues.

Table MDA-4
Changes in Major General Fund Revenues (\$000s)

Revenue category	2019	2018	Dollar Variance	Percentage Variance
Property taxes	\$ 2,822,535	\$ 2,663,794	\$ 158,741	5.96%
Sales and use taxes	1,646,523	1,537,378	109,145	7.10%
Income and franchise taxes	2,941,982	2,641,586	300,396	11.37%
Total	\$ 7,411,040	\$ 6,842,758	\$ 568,282	8.30%

Property Taxes

Real property tax revenue was higher because of increased assessed values and higher tax rates. The increased assessed values were the result of price appreciation for both commercial and residential properties. Higher tax rates on high-value commercial real property transactions also contributed to higher revenue in fiscal year 2019.

Sales and Use Taxes

There was stronger than normal growth in sales and use tax revenue in fiscal year 2019. This growth resulted from changes to the District's tax code to begin taxing online and digital retail sales, and higher tax rates on retail sales and hotel room revenue.

Income and Franchise Taxes

Higher than usual growth in individual income tax revenue was the result of low unemployment rate, strong wages and salaries growth, as well as higher capital gains stemming from the strong stock market performance. Increased franchise tax revenue reflects general improvement in the economic environment leading to increased profitability of District businesses. Changes in federal tax legislation also contributed to higher franchise tax revenue as it increased the taxable income of businesses.

Dedicated Revenues

The dedicated portions of tax revenues related to the special revenue funds are recorded directly in those funds. However, dedicated taxes for the Washington Convention and Sports Authority and the Highway Trust Fund are transferred out of the local fund. Healthcare Program activities are recorded in a segregated fund within the General Fund. In fiscal year 2019, the District dedicated a total of \$804,847 in tax revenues, which was 43.72% higher than the

previous year, to fund the projects presented in **Table MDA-5**. The increase was mainly due to more taxes dedicated to WMATA in fiscal year 2019 including additional capital funding of \$178,500. Increases in tax rates on commercial property and general sales, and an increase in rates for private for-hire vehicles, such as Uber and Lyft, were used to offset the increase in WMATA funding.

Table MDA-5
Dedicated Tax Revenues (\$000s)

	Property	Sales and Use	Gross Receipts	Deed Recordation	Deed Transfers	Motor Fuel	Other	Total Taxes
General fund								
Washington Convention and Sports Authority	\$ -	\$ 147,633	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 147,633
Department of General Services	-	-	-	125	125	-	-	250
Healthcare programs	-	1,158	-	-	-	-	80,571	81,729
Highway Trust Fund	-	-	-	-	-	27,935	-	27,935
WMATA	-	258,282	-	-	-	-	-	258,282
Healthy schools	-	4,266	-	-	-	-	-	4,266
Alcoholic Beverage Regulation Administration	-	1,170	-	-	-	-	-	1,170
Arts and Humanities	-	31,956	-	-	-	-	-	31,956
HPTF debt service	-	-	-	2,856	4,892	-	80	7,828
Total general fund	-	444,465	-	2,981	5,017	27,935	80,651	561,049
Special revenue funds								
Tax increment financing program	17,944	30,732	-	-	-	-	-	48,676
PILOT special revenue	34,698	14,340	-	-	-	-	-	49,038
Baseball project	-	16,150	55,612	-	-	-	-	71,762
Housing Production Trust	-	-	-	40,699	28,743	-	4,880	74,322
Total special revenue funds	52,642	61,222	55,612	40,699	28,743	-	4,880	243,798
Total dedicated taxes	\$ 52,642	\$ 505,687	\$ 55,612	\$ 43,680	\$ 33,760	\$ 27,935	\$ 85,531	\$ 804,847

Expenditures

The District's General Fund expenditures, excluding debt service, increased by \$326,722 from the previous year. Variances by function are presented in **Table MDA-6**.

Table MDA-6
General Fund Expenditure Variances by Function (\$000s)

Function	2019	2018	Dollar Variance	Percentage Variance
Governmental direction and support	\$ 1,031,085	\$ 984,073	\$ 47,012	4.78%
Economic development and regulation	493,879	450,329	43,550	9.67%
Public safety and justice	1,236,656	1,222,117	14,539	1.19%
Public education system	2,357,340	2,284,664	72,676	3.18%
Human support services	2,148,238	2,049,211	99,027	4.83%
Public works	433,141	389,778	43,363	11.13%
Public transportation	425,753	419,198	6,555	1.56%
Total functional expenditures	\$ 8,126,092	\$ 7,799,370	\$ 326,722	4.19%

Explanations for variances in General Fund functional expenditures are presented below:

Governmental Direction and Support

Expenditure increases in Governmental Direction and Support were attributed, in part, to increased costs to acquire additional property insurance for District properties in fiscal year 2019. The establishment of new programs and activities by the Mayor also contributed to increased expenditures. For example, the Office of Nightlife and Culture was created to promote efficiencies for the District's after-hours economy by serving as a central point of contact between the District government, the nightlife industry, and District residents. Other factors that contributed to this increase include: additional spending related to DC NET equipment upgrades; spending increases associated with certain large settlements made in connection with claims filed against the District; implementation of the Career Pathway Innovation and the DC Central Kitchen Projects; increased spending on activities related to the DC Statehood Initiative; the awarding of grants to certain nonprofit community organizations; and providing support for a transportation subsidy program.

Economic Development and Regulation

Increases in Economic Development and Regulation expenditures resulted mostly from increases in funding for the Housing Authority Subsidy and the Local Rent Supplement programs, as part of the District's affordable housing initiative, to provide housing and rental assistance for low-income families and individuals. Also, funding was increased in fiscal year 2019 to support the Home Purchase Assistance Program (HPAP), the Employer-Assisted Housing Program (EAHP) and the Negotiated Employee Assistance Home Purchase Program (NEAHP) at the Department of Housing and Community Development. Additional increases in Economic Development and Regulation spending were attributed to: assisting residents with emergency housing needs following the Arthur Capper Fire; providing an alternative

transportation service for Metro Access customers through the Transportation DC program; and creating a digital platform to support an infrastructure for the Transportation Network Companies.

Public Safety and Justice

Public Safety and Justice expenditure increases were primarily due to a revised union contract agreement for the Metropolitan Police Department that took effect in fiscal year 2019. The agency was required to pay the salary increase as well as retro-pay back to fiscal year 2018, thus increasing expenditures in personnel services. Additional increases in spending were attributed to the expansion of the Violence Interruption and Pathways programs and an increase in personnel costs as a result of the transfer of Roving Leader positions from the D.C. Department of Parks and Recreation to the Neighborhood Safety and Engagement agency, in fiscal year 2019. The mission of the Roving Leaders Program is to prevent, neutralize, and control hostile behavior in youth through the development of positive relationships between teens/youth and outreach workers. Other factors that contributed to this increase include: the rise in sub-grant payments and personnel costs mostly associated with Victim Services programs and an increase in contract charges for the Guideline Reporting Information Data (GRID) system, which is used by the Metropolitan Police Department to analyze criminal justice and sentencing data.

Public Education System

Expenditures in the Public Education System increased primarily due to an increase in the Uniform Per Student Funding rate caused by inflation and increased student enrollment. The increase in expenditures was also attributed to spending increases supporting the expansion of afterschool and summer programs and Out of School Time Grants and Youth Outcomes programs. Additional expenditure increases included

spending to support the Child Care Subsidy Program and union contract charges to operate the Special Education Transportation program, which provides safe, reliable and efficient transportation for eligible District students.

Human Support Services

Human Support Services agencies provide an array of services to sustain, support and assist the District's most vulnerable residents in the areas of homelessness, substance and mental abuse, the prevention and promotion of health and wellness, and other human welfare issues through such programs as Medicaid, Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP). The increase in expenditures in fiscal year 2019 was primarily due to higher Medicaid program enrollment along with medical rate increases, and higher administrative costs associated with operating those programs. This increase was also attributed to the higher costs of implementing the District of Columbia Access System (DCAS), which is used by the Department of Health Care Finance to enhance the participant eligibility determination and approval processes for the Medicaid, SNAP, and TANF programs.

Public Works

Public Works expenditures increased in fiscal year 2019 as a result of the Circulator Program being moved from the Washington Metropolitan Area Transit Authority (WMATA) to the District Department of Transportation (DDOT). WMATA implemented the program in prior years; however, DDOT began administering the program in fiscal year 2019. Consequently, in that year, DDOT incurred additional costs associated with obtaining new Circulator buses and establishing new and/or expanding existing bus routes. Additional costs were incurred for stormwater permit review; to replace lead water service lines and improve health and environmental standards; to support full implementation of the Clean Energy DC Act to increase energy efficiency and help transition the District to renewable energy sources; to administer the DC sustainable Energy Utility programs including building Community Renewable Energy Facilities

(CREFs), installing solar photovoltaic PV systems on single family homes, and implementing DC Solar for All initiative; and to keep the Clean Rivers Impervious Area Charge (CRIAC) affordable to low- and moderate-income households and nonprofit organizations. There were also increases in spending for the Bikeshare Program due to increased utilization.

Public Transportation

The District, along with other jurisdictions in the metropolitan region, provides funding to support the operations of the Washington Metropolitan Area Transit Authority (WMATA). Increases in Public Transportation expenditures in fiscal year 2019 resulted from increased WMATA operating cost, which led to increased subsidies being paid by the District.

Capital Expenditures and Financing

The District spent \$1,388,729 on general capital improvements which exceeded the general capital improvements revenues of \$236,497 by \$1,152,232. This deficiency was subsequently financed with a net total of \$1,296,156 from bond proceeds and other financing sources and uses. The net change in fund balance was an increase of \$143,924, which resulted in a cumulative negative fund balance of \$378,421.

The District's investments in capital improvements are based on need rather than available current year resources. It is the District's financial policy to issue bonds to support the expenditures associated with its Capital Improvements Program. In order to minimize the cost of carrying debt, the District has instituted the practice of issuing bonds based on actual expenditures, in some cases, and on the annual amount budgeted. However, agencies are authorized to spend their annual appropriated capital budget in advance of financing. The General Fund advances the amount of the funding, and is repaid with the proceeds from the bonds when issued. This allows the District to determine when it will enter the market to issue bonds based upon cash flow needs, favorable market rates, the total amount of municipal debt financing, and the types of credits that are available. This flexibility helps to minimize borrowing costs and maximize the pool of potential investors for the District's debt issuances.

Housing Production Trust Fund

At the end of fiscal year 2019, the Housing Production Trust Fund (HPTF) long-term loans receivable balance was \$850,280, an increase of \$127,985 or 17.72% from the balance at the end of the preceding fiscal year. Repayment of most of the HPTF loans has been deferred for extended periods of time in accordance with the associated loan agreements, in some instances up to 40 years. Deferring the repayment to that many years in the future makes it difficult to assess and reasonably estimate the collectability and net realizable value of the loans.

For this reason, 100% of the deferred portion of the HPTF loans is reserved as potentially unrealizable. The gross balance of the long-term loans receivable is reported net of the related allowance for doubtful accounts as other long-term assets. As of September 30, 2019, this net balance was \$93,959.

Table MDA-7 presents the Housing Production Trust Fund long-term loans receivable balances and the corresponding allowance for doubtful accounts for fiscal years 2015 through 2019.

Table MDA-7
Housing Production Trust Fund (HPTF) Long-Term Loans Receivable Balances (\$000s)

	2015	2016	2017	2018	2019
HPTF long-term loans receivable	\$ 407,882	\$ 495,820	\$ 605,479	\$ 722,295	\$ 850,280
Less: allowance for doubtful accounts	365,585	440,948	510,465	624,559	756,321
Net long-term loans receivable (other long-term assets)	\$ 42,297	\$ 54,872	\$ 95,014	\$ 97,736	\$ 93,959

Proprietary Funds

The District has three major Proprietary Funds: the Office of Lottery and Gaming (the Lottery), the Unemployment Compensation Fund (Unemployment) and the Not-for-Profit Hospital Corporation.

The total assets of the Lottery decreased by \$19, or 0.10%, compared to the prior year, due to increased prize payouts.

Total assets of Unemployment increased by \$44,012, or 8.90%, due to a low unemployment rate which resulted in less benefit payments. As a result, more cash was on deposit with the U.S. Treasury at the end of fiscal year 2019.

The total assets of the Not-for-Profit Hospital Corporation decreased by \$4,180, or 3.31%, mainly

due to decreases in net patient receivables as a result of decreased patient service revenues in fiscal year 2019 compared to prior year.

Total net position of the District's proprietary funds increased by \$50,079, or 9.34%, over the prior year. Exhibits 3-a, 3-b, and 3-c on pages 56 through 58 present the financial statements of the proprietary funds.

Charts MDA-3 and **MDA-4** graphically present comparisons of the revenues and expenses of the District's proprietary funds, based on information contained in the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds, shown on page 57.

Chart MDA-3
Operating Revenues and Expenses – Business-Type Activities (\$000s)

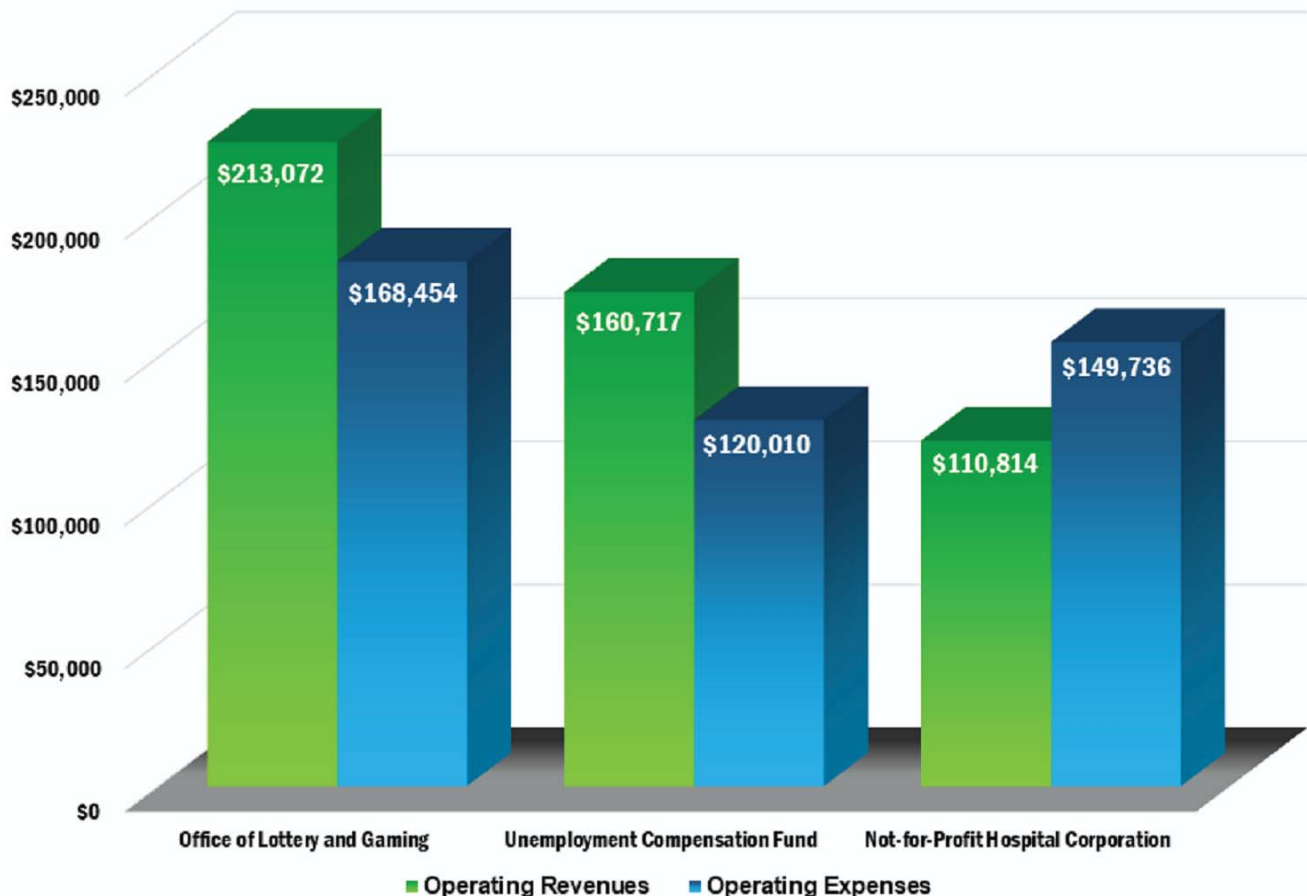
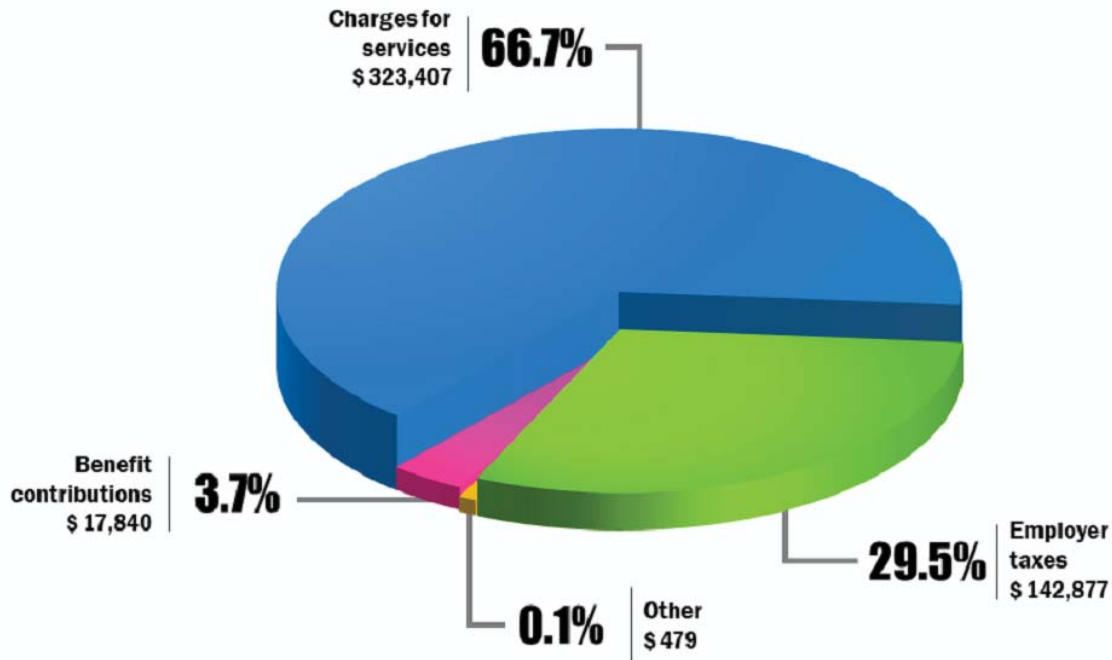


Chart MDA-4
Operating Revenues by Source – Business-Type Activities (\$000s)



Total Business-Type Activities: Operating Revenues
\$ 484,603

Fiduciary Funds

The Trust and Agency Funds are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. The District is the trustee or fiduciary for its employees' pension plans and other postemployment benefits (OPEB). All fiduciary activities are reported in Exhibit 4-a, Statement of Fiduciary Net Position and Exhibit 4-b, Statement of Changes in Fiduciary Net Position on pages 59 and 60, respectively. Exhibits C-1, C-2,

and C-3, presented on pages 170, 171, and 172, respectively, provide additional information. These activities are excluded from the District's governmental and business-type activities because resources of fiduciary funds are restricted and are not available to support the District's operations. The changes in the net position restricted for Pension and OPEB Trust Funds are presented in **Table MDA-8**.

Table MDA-8
Variances in Net Position Restricted for Pension and OPEB Trust Funds (\$000s)

Trust fund	2019	2018	Dollar Variance	Percentage Variance
Police and fire fighters pension	\$ 6,256,363	\$ 6,023,770	\$ 232,593	3.86%
Teachers pension	2,264,482	2,176,106	88,376	4.06%
Other postemployment benefits	1,509,103	1,462,030	47,073	3.22%
Total net position restricted for pension and OPEB trust funds	\$ 10,029,948	\$ 9,661,906	\$ 368,042	3.81%

Net position of the fiduciary funds increased mainly as a result of positive investment returns in fiscal year 2019.

A Private-Purpose Trust Fund is used to report any trust arrangement not reported in the Pension or OPEB Trust Funds under which principal and income benefit specific individuals, private organizations, or other governments. The District's 529 College Savings Investment Plan, which is designed to help families save for the higher education expenses of designated beneficiaries, comprises the Private-Purpose Trust Fund.

Component Units

Discretely presented component units are legally separate organizations that meet the following criteria: (a) the District appoints a voting majority of the entity's governing board and (b) there is a financial benefit/burden relationship between the District and the entity, or the District is able to impose its will on the entity. Consistent with these criteria, the District reports four discretely presented component units: (1) Health Benefit Exchange Authority; (2) Washington Convention and Sports Authority (t/a Events DC); (3) Housing Finance Agency; and (4) University of the District of Columbia.

Other component units have operations that are so intertwined with those of the primary government that they function, for all practical purposes, as an integral part of the primary government. These are reported as blended component units. A component unit should be blended when the primary government and the component unit share a common governing body and (a) there is a financial benefit or burden relationship between the primary government and the entity, or (b) the primary government has operational responsibility for the entity. In addition, blending is required when the component unit meets any one of the following criteria: (a) the entity provides service entirely or almost entirely to the primary government; or otherwise exclusively or almost exclusively benefits the primary government, although it does not provide services directly to it; (b) the entity's total debt outstanding is expected to be repaid entirely or almost entirely with the primary government's resources; and (c) the organization is a not-for-profit corporation, in which the primary government is the sole corporate member.

The District reports two blended component units: (1) the Tobacco Settlement Financing Corporation (Tobacco Corporation) and (2) the Not-for-Profit Hospital Corporation (d/b/a United Medical Center). The Tobacco Corporation is a blended component unit because: (a) the District appoints the Tobacco Corporation's board; (b) the District is legally entitled to and can otherwise access the Tobacco Corporation's resources, which constitutes a benefit/

burden relationship; and (c) the District has the ability to modify or approve the Tobacco Corporation's budget, which gives the District the ability to impose its will on the Tobacco Corporation. In addition, the Tobacco Corporation provides services entirely to the District. The Not-for-Profit Hospital Corporation is a blended component unit because: (a) there is a financial benefit/burden relationship between the District and the Not-for-Profit Hospital Corporation because the District has assumed the obligation to provide financial support to the Not-for-Profit Hospital Corporation to help sustain its operations; (b) the District is able to impose its will on the Not-for-Profit Hospital Corporation because the District has the ability to modify or approve the Not-for-Profit Hospital Corporation's budget; and (c) it is organized as a not-for-profit corporation, in which the District is the sole corporate member.

Each of the component units prepares its own independently audited financial statements, which are accompanied by their respective Management's Discussion and Analysis. Exhibits 5-a and 5-b, on pages 61 and 62, respectively, present the District's component units' financial information for fiscal year 2019. Information presented in these exhibits was extracted from each entity's separately issued financial statements.

Long-Term Debt

The District is empowered by law (Section 461 of the District of Columbia Home Rule Act, as amended) to issue General Obligation Bonds for the payment of the costs of acquiring capital assets or undertaking various capital projects and to refund indebtedness of the District. The District also issues Income Tax Secured Revenue Bonds pursuant to the Bond Authorization Act of 2008 (D.C. Code §§ 47-340.26 to 47-340.36). The payment of principal and interest on these bonds comes solely from the associated trust estate and the available pledged tax revenues. The Income Tax Secured Revenue Bonds are without recourse to the District, and are not a pledge of, and do not involve the full faith and credit or the taxing power of the District.

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

As of September 30, 2019, the District (including its business activities) had \$12,920,327 in long-term debt outstanding, of which \$10,479,276, or 81.11% was in the form of bonds and notes. Of the outstanding bonds, \$5,611,815, or 53.55% were General Obligation Bonds, and \$3,617,225, or 34.52% were Income Tax Secured Revenue Bonds.

Table MDA-9 presents the District's outstanding bonds and notes as of September 30, 2019.

Table MDA-9
Outstanding Bonds and Notes as of September 30, 2019 (\$000s)

Type of bonds and notes	2019	2018	Dollar Variance	Percentage Variance
General obligation bonds - publicly offered	\$ 5,037,300	\$ 4,234,720	\$ 802,580	18.95 %
General obligation bonds - direct placements	574,515	592,385	(17,870)	(3.02)%
Income tax secured revenue bonds	3,617,225	3,776,255	(159,030)	(4.21)%
Other bonds:				
Qualified zone academy bonds (QZAB) - direct placements	2,012	2,466	(454)	(18.41)%
Tobacco bonds	538,644	561,119	(22,475)	(4.01)%
Tax increment financing bonds - publicly offered	84,222	88,506	(4,284)	(4.84)%
Tax increment financing bonds - direct placements	17,400	17,400	-	0.00 %
Ballpark revenue bonds	230,165	285,480	(55,315)	(19.38)%
Federal highway grant anticipation revenue bonds (GARVEE)	74,715	82,620	(7,905)	(9.57)%
Deed tax revenue bonds (housing production trust fund program)	104,400	107,390	(2,990)	(2.78)%
PILOT revenue bonds - publicly offered	145,445	145,445	-	0.00 %
PILOT revenue bonds and notes - direct placements	53,233	74,253	(21,020)	(28.31)%
Total outstanding bonds and notes - governmental activities	\$ 10,479,276	\$ 9,968,039	\$ 511,237	5.13 %

The \$802,580 increase in publicly offered General Obligation Bonds, which was offset by a \$17,870 decrease in the direct placements, resulted in a net increase of \$784,710 in General Obligation Bonds in fiscal year 2019. This increase was due to the issuance of \$937,775 Series 2019A General Obligation Bonds in February 2019. The proceeds of the bonds were used to finance capital project expenditures under the District's capital improvements plan, refinance

GO bond anticipation notes and pay the costs and expenses of issuing the bonds. Interest rates on the Series 2019A Bonds range from 4.00% to 5.00%. The new issued bonds of \$937,775 were offset by \$153,065 in principal payments during the fiscal year.

For more information on the District's long-term debt activity, refer to Note 7, Long-Term Liabilities, on pages 113 through 125.

Capital Assets

The General Capital Improvements Fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants, and debt. Capital assets include, but are not limited to: land, buildings, police and fire equipment, office equipment, park facilities, roads, and bridges. In fiscal year 2019, total net capital assets (capital assets less accumulated depreciation) increased by \$768,159, or 5.55%, over the prior year. Total capital assets increased because the District has been investing resources in the construction of new assets and the rehabilitation of existing infrastructure, such as roads, streets, and bridges.

As of September 30, 2019, net capital assets totaled \$14,603,288. Net capital assets of the governmental activities totaled \$14,534,439 and net capital assets of the business-type activities totaled \$68,849. The governmental activities depreciation charges for fiscal year 2019 totaled \$459,009 compared to the prior year's amount of \$453,675.

Table MDA-10 presents information on the District's net capital assets by class.

Table MDA-10
Net Capital Assets by Asset Class as of September 30, 2019 (\$000s)

Asset class	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Land	\$ 964,409	\$ 963,690	\$ 8,100	\$ 8,100	\$ 972,509	\$ 971,790
Buildings	7,567,567	7,280,055	46,043	49,368	7,613,610	7,329,423
Infrastructure	3,864,471	3,714,408	-	-	3,864,471	3,714,408
Equipment	461,649	410,017	13,866	14,584	475,515	424,601
Construction in progress	1,676,343	1,394,490	840	417	1,677,183	1,394,907
Total net capital assets	\$ 14,534,439	\$ 13,762,660	\$ 68,849	\$ 72,469	\$ 14,603,288	\$ 13,835,129

Note:

Additional information on the District's capital assets is presented in Note 5, Capital Assets, on pages 102 through 106.

REPORTING THE DISTRICT BUDGET

Overview

D.C. Code § 47-392.01(c)(1)(A) requires the District to prepare a balanced budget each year. After approval of the adopted budget, the Mayor submits the Federal Portion Budget Request Act 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 can: (1) take no action on the Budget Act, in which case it becomes law after 30 Congressional days in the same manner as other District legislation; (2) reject the Budget Act; (3) affirmatively approve the Budget Act with or without Congressional amendments; or (4) adopt an appropriation for the District in the federal appropriations bill, in a continuing resolution, or as a stand-alone piece of legislation, in which case, that action controls.

The Chief Financial Officer is responsible for forecasting revenue for the District government. Each February, the Chief Financial Officer issues the official revenue estimate that is used to develop the District's budget for the next fiscal year. This estimate is revised as the new fiscal year begins and is periodically reviewed and adjusted quarterly to reflect current economic trends and outlook, new legislative mandates, and other similar factors. As the revenue estimates are revised, the District's expenditure budget may also be revised to be consistent with the updated revenue estimates.

General Fund Budgetary Highlights

The General Fund is the chief budgetary operating fund of the primary government. **Table MDA-11** presents variances between revised budget amounts and actual expenditures in a Schedule of General Fund Budgetary Basis Revenues and Expenditures for the fiscal year ended September 30, 2019.

Table MDA-11
Schedule of General Fund Budgetary Basis Revenues and Expenditures (\$000s)

	Original Budget	Revised Budget	Actual	Variance (Actual to Revised Budget)
Revenues and other sources				
Taxes	\$ 7,789,549	\$ 7,988,525	\$ 8,211,609	\$ 223,084
Licenses and permits	132,911	136,847	146,955	10,108
Fines and forfeitures	152,469	179,441	195,392	15,951
Charges for services	77,443	77,562	77,487	(75)
Miscellaneous	103,760	167,121	199,407	32,286
Other sources	704,366	716,627	644,828	(71,799)
Bond proceeds	8,000	8,000	4,820	(3,180)
Fund balance released from restrictions	119,939	252,601	-	(252,601)
Interfund transfer from office of lottery and gaming	45,000	44,710	45,050	340
Interfund transfer - others	15,447	34,530	42,312	7,782
Total revenues and other sources	9,148,884	9,605,964	9,567,860	(38,104)
Expenditures and other uses				
Governmental direction and support	835,768	883,573	853,190	30,383
Economic development and regulation	595,881	621,967	538,468	83,499
Public safety and justice	1,190,765	1,249,992	1,237,849	12,143
Public education system	2,305,022	2,333,193	2,327,352	5,841
Human support services	2,151,727	2,152,119	2,132,213	19,906
Public works	861,283	895,400	856,610	38,790
Repay bonds and interest	759,363	718,575	715,784	2,791
Other expenditures and uses	423,874	432,077	429,529	2,548
Total expenditures and other uses	9,123,683	9,286,896	9,090,995	195,901
Excess of revenues and other sources over expenditures and other uses - budgetary basis	\$ 25,201	\$ 319,068	\$ 476,865	\$ 157,797

Revenues and Other Sources

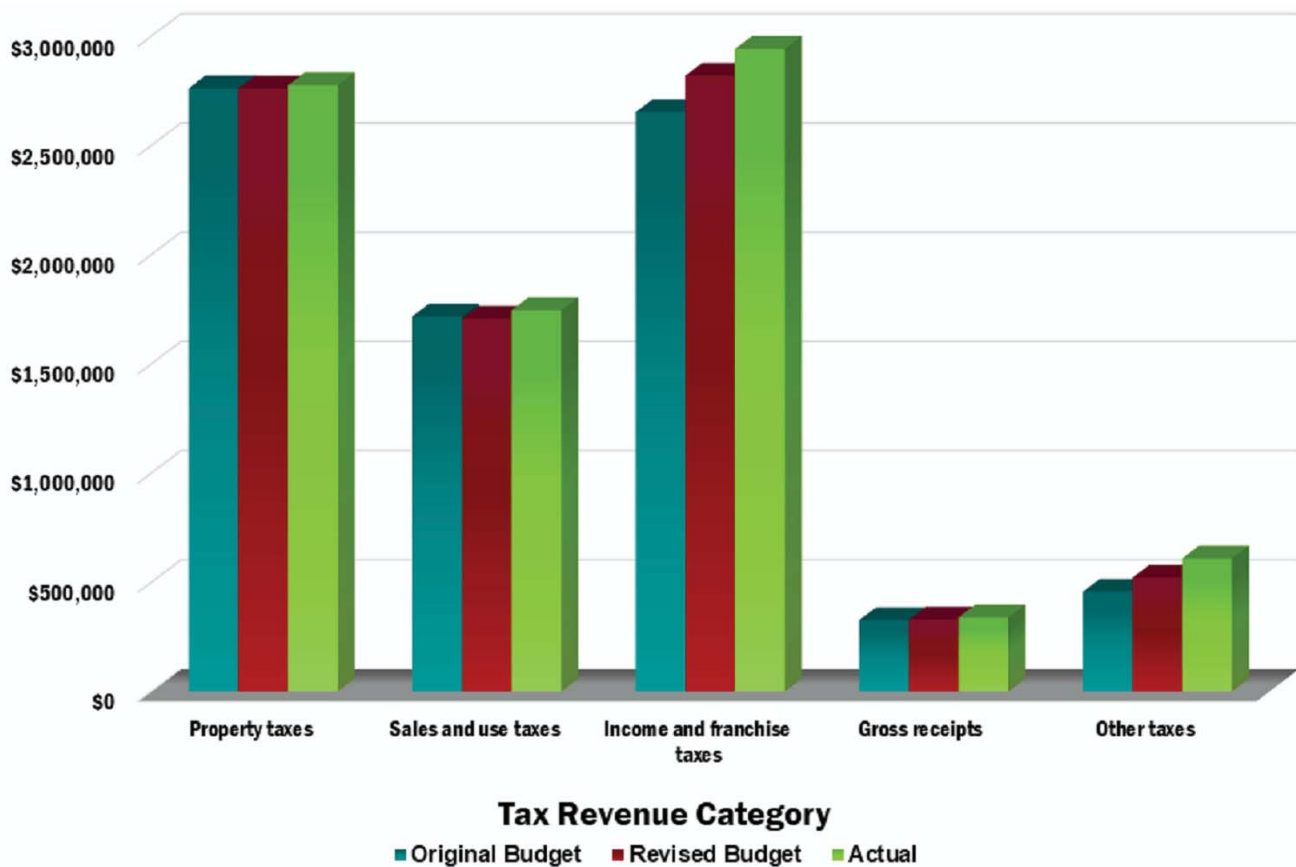
As presented in **Table MDA-11**, actual General Fund revenues and other sources were \$38,104 less than the revised budget. This variance was primarily due to the use of excess revenues instead of using fund balance released from restrictions to fund certain operating activities.

Fund balance released from restrictions is defined as the portion of assets that was restricted for either a period of time or for a particular purpose for which the imposed conditions have been met, allowing the assets to become available for use. In other words,

this amount of fund balance was budgeted to help finance current year's operations. As presented in **Table MDA-11**, although budgeted, the District did not utilize fund balance to finance operations in fiscal year 2019 but rather relied on the city's revenues to meet operational needs.

Taxes comprised 85.82% of the General Fund's total revenues and other sources. **Chart MDA-5** graphically presents differences between the General Fund's original budget, final revised budget and actual revenues (by type of tax) for fiscal year 2019.

Chart MDA-5
FY 2019 Budgetary Comparison – Tax Revenues
Original and Revised Budgets With Actual Results (\$000s)



For more detailed information, refer to the Schedule of Local Source Revenues for the General Fund, Exhibit A-4, presented on page 161.

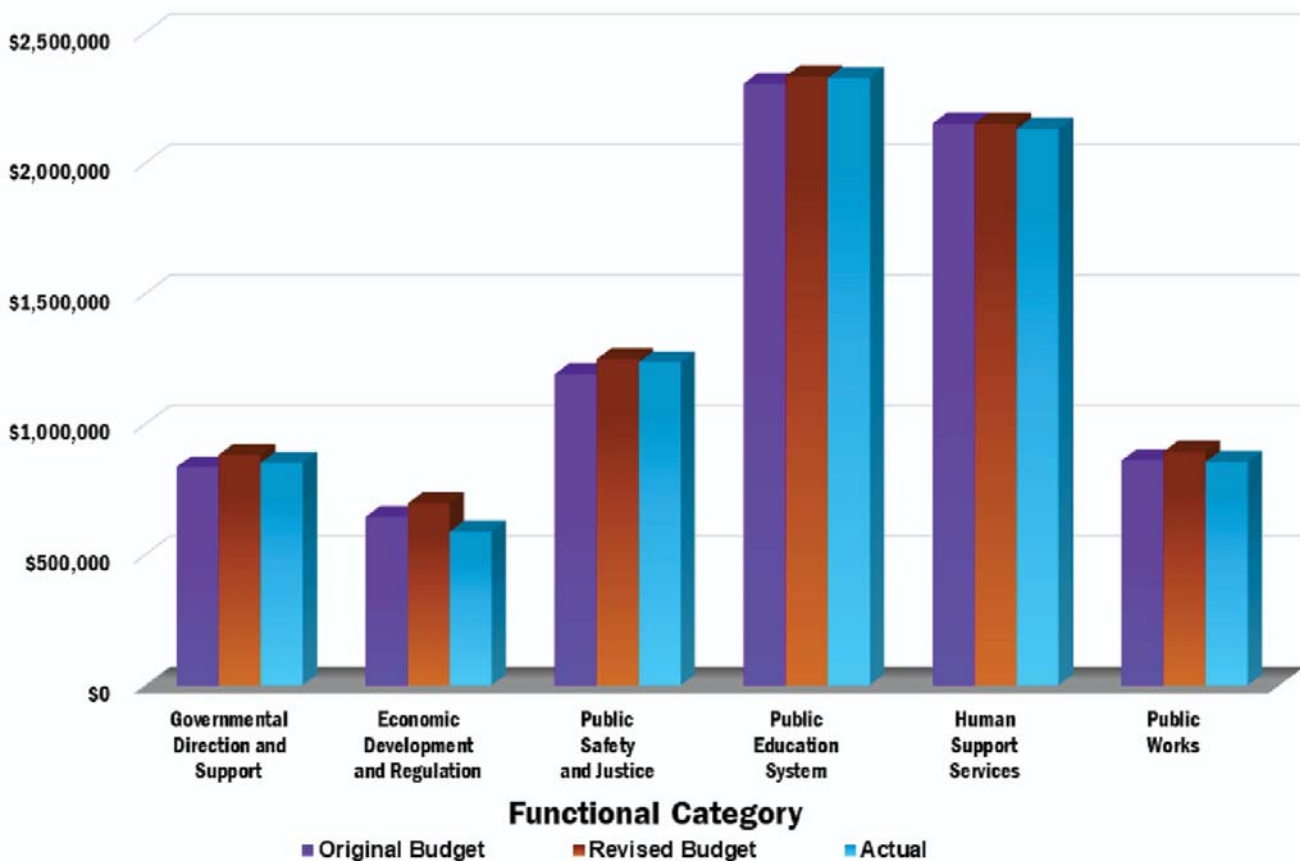
Expenditures and Other Uses

Actual General Fund expenditures and other uses were \$195,901, or 2.11%, less than the revised budget. As presented in **Table MDA-11**, this variance was primarily due to underspending in the areas of Economic Development and Regulation, Public Works, and Governmental Direction and Support. The largest portion of the underspending totaling \$120,540, or 16.82% of the corresponding revised budget, was in the Special Purpose Revenues fund. The local fund had an underspending of \$75,361, or 0.88% of the revised budget in that fund.

Expenditures in Public Education, Human Support Services, and Public Safety and Justice comprised 62.67% of the total actual General Fund expenditures and other uses.

Chart MDA-6 graphically presents differences between the General Fund's original budget, revised budget, and actual expenditures (by functional category) for fiscal year 2019.

Chart MDA-6
FY 2019 Budgetary Comparison – General Fund Expenditures (by Function)
Original and Revised Budgets With Actual Results (\$000s)



For more detailed information, refer to the budgetary schedules for the General Fund, Exhibit A-6, which are presented on pages 163.

SUBSEQUENT EVENTS

Income Tax Secured Revenue Bonds

In December 2019, the District issued: (1) \$718,945 in tax-exempt Income Tax Secured Revenue Bonds, Series 2019A; (2) \$60,000 federally taxable Income Tax Secured Revenue Bonds, Series 2019B; and (3) \$583,395 in tax-exempt Income Tax Secured Revenue Refunding Bonds, Series 2019C.

The proceeds of the 2019A Bonds will be used to: (1) pay or reimburse the District for capital project expenditures under the District's capital improvements plan, (2) refund \$205,000 General Obligation Bond Anticipation Notes, and (3) pay the costs and expenses of issuing and delivering the Series 2019A Bonds. The Series 2019A Bonds bear interest at a fixed rate ranging from 3.00% to 5.00% and have a final maturity date of March 1, 2044.

The proceeds of the Series 2019B Bonds will be used to: (1) provide funds for the New Communities Initiative, (2) refund \$40,000 in Income Tax Secured Bond Anticipation Notes, and (3) pay the costs and expenses of issuing and delivering the Series 2019B Bonds. The Series 2019B Bonds bear interest at a fixed rate ranging from 1.78% to 3.20% and have a final maturity date of March 1, 2039.

The proceeds of the Series 2019C Bonds will be used to: (1) refund Income Tax Secured Revenue Bonds Series 2009A, 2009B, 2009C; Deed Tax Revenue Bonds (HPTF - New Communities Project) Series 2007A; General Obligation Bonds Series 2007A and (2) pay the costs and expenses of issuing and delivering the 2019C Bonds. The Series 2019C Bonds bear interest at a fixed rate ranging from 3.00% to 5.00% and have a final maturity date of October 1, 2036.

Tax Increment Revenue Bonds (The Bryant Street Project)

In October 2019, the District issued \$17,300 in tax-exempt Tax Increment Revenue Bonds, Series 2019, for the Bryant Street Project. The proceeds of the Series 2019 Bonds will be used to: (1) fund public infrastructure costs associated with the Bryant Street Project, a mixed-use development project adjacent to the Rhode Island Metro station, (2) fund capitalized interest on the Bonds, and (3) pay the costs and expenses of issuing and delivering the Bonds. The Series 2019 Bonds bear fixed rate interest ranging from 4.00% to 5.00% and have a final maturity date of June 1, 2043.

PILOT Revenue Note Amendment (The Yards Project)

In December 2019, the District issued an amended PILOT Revenue Note, Series 2014 (The Yards Project) to amend a Continued Covenants Agreement dated December 18, 2014. The amended Series 2014 Note which increased the original Note amount of \$34,800 to \$62,800, was issued in accordance with the provisions of the Home Rule Act and the Payment in Lieu of Taxes Revenue Bonds Southeast Federal Center Project Approval Resolution of 2006, as modified by the Southeast Federal Center Payment In Lieu of Taxes Revision Emergency Approval Resolution of 2007. Series 2014 was issued to reimburse Forest City SEFC, LLC for certain development costs of public infrastructure within the Southeast Federal Center Project area. The amended Note bears interest at 83.00% of the LIBOR 30-day index plus 1.00% or the maximum market rate, and matures on December 17, 2024.

These subsequent events are presented in detail in Note 16, Subsequent Events on page 145.

CONTACTING THE DISTRICT'S OFFICE OF THE CHIEF FINANCIAL OFFICER

This CAFR is designed to provide a general overview of the District's finances and to demonstrate the effectiveness of the District's systems of accountability for the money it receives. If you have any questions regarding this report, suggestions for improvement, or need additional financial information, please contact:

Office of the Chief Financial Officer

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