

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2020

(Dollar amounts expressed in thousands)

The following is a discussion and analysis of the financial performance of the District of Columbia (District) for the fiscal year ended September 30, 2020, 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.

Fiscal year 2020 was impacted by the onset of the Coronavirus pandemic (COVID-19), a global pandemic that reached the Mid-Atlantic region of the United States in March 2020. Prior to the onset of this unprecedented public health crisis, the District had been experiencing many positive trends such as job growth in the private sector, strong upward trends in tourism, and steady increases in key general tax revenues. The District took immediate actions when the pandemic began and as such, the financial impacts for the year ending September 30, 2020 were mitigated and operating results for that year remained strong. Despite the challenges presented by COVID-19, the District continued funding the city's pensions and other postemployment benefits and satisfied all other long-term obligations, including debt service requirements.

FINANCIAL HIGHLIGHTS

- During fiscal year 2020, total District revenues increased by \$1,645,218. This increase consisted of a \$1,949,366 increase in program revenues, partially offset by a decrease of \$304,148 in general revenues. The most significant increase in program revenues was in operating grants and contributions, which grew by \$1,917,188, due primarily to financial support received through Coronavirus relief funding and other public assistance grants provided by the Federal Emergency Management Agency (FEMA). During fiscal year 2020, the District reported \$1,419,692 in revenues from the Coronavirus relief funds, of which \$969,704 was used to support expansion of unemployment insurance for District of Columbia workers. This funding was made available to states and local governments through the passage by Congress of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The District also received funding from FEMA which was used to provide or otherwise expand certain programs and services Human Support Services and Public Safety and Justice.

The most significant decrease in general revenues was in sales and use tax revenues, which decreased by \$390,632, or 22.87%, over the prior year. This decrease was due to measures taken by the city to contain the spread of the Coronavirus pandemic (COVID-19). In response to this unprecedented public health crisis, the District, like other jurisdictions around the nation and the world, temporarily closed businesses, implemented social distancing measures, and

set restrictions for social gatherings. As a result of these measures, sales and hospitality revenues dropped at historical rates, leading to decreases in related tax revenues. Decreases in sales and use taxes were partially offset by increases in real property taxes, and income and franchise taxes, which were not negatively impacted by the pandemic. (See **Table MDA-2**)

- Total expenses increased by \$2,773,724, or 20.13%, during fiscal year 2020. The most significant increase in expenses was in the Unemployment Compensation Fund, which rose by \$1,448,055 or 1,206.61% over the one-year period. The increased unemployment compensation expenses were paid using \$969,704 in Coronavirus relief funding provided by the Federal government for expanded unemployment benefits. The District also used cash reserves and payments received from employers to fund the remaining increase in unemployment compensation expenses. Due to the pandemic and the resulting economic downturn, a historically high number of District residents and former civilian federal employees were faced with unemployment. The increase in unemployment compensation resulted from the increase in benefit payments made to eligible claimants. In addition, with the exception of Public Transportation, the District's expenses grew in all other areas and functions due to the city navigating its response to both a public health crisis and an economic downturn. (See **Table MDA-2**)

- Total net position decreased by \$156,882 to \$6,502,055 or 2.36%, which was the first decrease in total net position in over a decade. This decrease was directly attributable to the use of reserves in the Unemployment Compensation Fund, a business-type activity, to augment the costs of an unprecedented increase in unemployment claims. The decrease in total net position was partially offset by the increase in net position in the governmental activities which resulted from higher program revenues received through CARES Act funding and grants provided by FEMA. (See **Table MDA-2**)
- The District's total long-term liabilities increased by \$1,581,960, or 12.24%, during fiscal year 2020. This increase is mainly due to the issuance of Income Tax Secured Revenue Bonds to finance capital improvement projects and reduce debt service costs. (See **Table MDA-1**)
- The combined fund balances of the governmental funds increased by \$768,687, or 21.47%, to \$4,348,331 in fiscal year 2020, compared to \$3,579,644 in the prior year. The most significant increase in fund balance was in the General Capital Improvements Fund. This increase resulted from capital projects being financed through the use of debt proceeds and short-term advances from the General Fund in fiscal year 2020. On the other hand, the fund balance of the Federal and Private Resources Fund had the most significant decrease because reimbursements for eligible federal expenditures were not received within the time frame for inclusion in the current fiscal year's financial statements. As of September 30, 2020, the District reported an increase in fund balance in its General Fund of \$6,518. (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 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. 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 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 overall financial health of the District.

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 government-wide financial statements of the District are presented in Exhibits 1-a and 1-b on pages 52 and 53.

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 financial 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 54 through 56.

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. The Not-for-Profit Hospital Corporation and the Office of Lottery and Gaming are two of the three major proprietary funds 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, which present the changes in financial position and condition of these three major proprietary funds, are presented in Exhibits 3-a, 3-b, and 3-c on pages 58 through 60.

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 61 and 62.

Component Units

Financial data of the District's discretely presented component units is reported in combining financial

statements, which are presented in Exhibits 5-a and 5-b on pages 63 and 64. 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 65, 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 progress of the District toward funding its obligation to provide pension and other postemployment benefits to District employees. Required supplementary information can be found on pages 159 through 165.

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 167 through 197.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND OPERATIONS

The District's overall financial position remained strong despite the economic and financial impacts of COVID-19. 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 2020 and 2019 is based on the government-wide financial statements presented on pages 52 and 53.

Table MDA-1
Net Position as of September 30, 2020 (\$000s)

	Governmental activities		Business-type activities		Totals		Variance
	2020	2019	2020	2019	2020	2019	
ASSETS							
Current and other assets	\$ 7,784,964	\$ 6,479,313	\$ 317,801	\$ 594,466	\$ 8,102,765	\$ 7,073,779	\$ 1,028,986
Capital assets	15,315,706	14,534,439	70,136	68,849	15,385,842	14,603,288	782,554
Total assets	23,100,670	21,013,752	387,937	663,315	23,488,607	21,677,067	1,811,540
DEFERRED OUTFLOWS OF RESOURCES							
	286,527	251,997	-	-	286,527	251,997	34,530
LIABILITIES							
Long-term liabilities	14,491,829	12,910,442	10,458	9,885	14,502,287	12,920,327	1,581,960
Other liabilities	2,379,115	2,008,918	210,263	67,439	2,589,378	2,076,357	513,021
Total liabilities	16,870,944	14,919,360	220,721	77,324	17,091,665	14,996,684	2,094,981
DEFERRED INFLOWS OF RESOURCES							
	181,414	273,443	-	-	181,414	273,443	(92,029)
NET POSITION							
Net investment in capital assets	3,232,889	3,571,065	70,136	68,849	3,303,025	3,639,914	(336,889)
Restricted	1,891,026	1,803,748	90,550	503,431	1,981,576	2,307,179	(325,603)
Unrestricted	1,210,924	698,133	6,530	13,711	1,217,454	711,844	505,610
Total net position	\$ 6,334,839	\$ 6,072,946	\$ 167,216	\$ 585,991	\$ 6,502,055	\$ 6,658,937	\$ (156,882)

Table MDA-2
Change in Net Position for the Year Ended September 30, 2020 (\$000s)

	Governmental activities		Business-type activities		Totals		Variance
	2020	2019	2020	2019	2020	2019	
REVENUES							
Program revenues							
Charges for services	\$ 891,589	\$ 869,744	\$ 313,407	\$ 323,407	\$ 1,204,996	\$ 1,193,151	\$ 11,845
Operating grants and contributions	4,826,314	3,916,440	1,025,633	18,319	5,851,947	3,934,759	1,917,188
Capital grants and contributions	278,833	258,500	-	-	278,833	258,500	20,333
General revenues							
Property taxes	3,061,745	2,888,245	-	-	3,061,745	2,888,245	173,500
Sales and use taxes	1,317,113	1,707,745	-	-	1,317,113	1,707,745	(390,632)
Income and franchise taxes	3,021,673	2,969,289	-	-	3,021,673	2,969,289	52,384
Other taxes	864,100	981,113	139,833	142,877	1,003,933	1,123,990	(120,057)
Non-tax revenues	646,653	664,420	10,840	12,416	657,493	676,836	(19,343)
Total revenues	14,908,020	14,255,496	1,489,713	497,019	16,397,733	14,752,515	1,645,218
EXPENSES							
Governmental direction and support	1,269,743	1,157,810	-	-	1,269,743	1,157,810	111,933
Economic development and regulation	845,768	700,346	-	-	845,768	700,346	145,422
Public safety and justice	1,920,012	1,673,214	-	-	1,920,012	1,673,214	246,798
Public education system	3,132,645	2,949,935	-	-	3,132,645	2,949,935	182,710
Human support services	5,463,907	5,148,903	-	-	5,463,907	5,148,903	315,004
Public works	1,162,410	860,918	-	-	1,162,410	860,918	301,492
Public transportation	424,271	425,753	-	-	424,271	425,753	(1,482)
Interest on long-term debt	430,752	425,812	-	-	430,752	425,812	4,940
Office of lottery and gaming	-	-	176,987	168,454	176,987	168,454	8,533
Unemployment compensation	-	-	1,568,065	120,010	1,568,065	120,010	1,448,055
Not-for-profit hospital corporation	-	-	160,055	149,736	160,055	149,736	10,319
Total expenses	14,649,508	13,342,691	1,905,107	438,200	16,554,615	13,780,891	2,773,724
Increase in net position before transfers	258,512	912,805	(415,394)	58,819	(156,882)	971,624	(1,128,506)
Transfers in (out)	3,381	8,740	(3,381)	(8,740)	-	-	-
Change in net position	261,893	921,545	(418,775)	50,079	(156,882)	971,624	(1,128,506)
Net position - October 1	6,072,946	5,151,401	585,991	535,912	6,658,937	5,687,313	971,624
Net position - September 30	\$ 6,334,839	\$ 6,072,946	\$ 167,216	\$ 585,991	\$ 6,502,055	\$ 6,658,937	\$ (156,882)

Refer to Note 1W - Reconciliation of Government-Wide and Fund Financial Statements, on page 86 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 \$1,645,218 while expenses increased by \$2,773,724 in fiscal year 2020 compared to the prior year.

General revenues, which are derived primarily from taxes and represented 55.26% of the District's total revenues in fiscal year 2020, decreased by \$304,148, or 3.25%, over the year. The decrease resulted primarily from a decline in sales and use tax revenues during the fiscal year. Generally, activities in the leisure and hospitality sector including hotels, restaurants, sports and entertainment, tourism/visitation, and retail, drive the changes in sales and use tax revenues each year. Due to the Coronavirus pandemic, such activities slowed and in some cases, halted in fiscal year 2020. As a result of the contraction in these activities, the associated sales and use taxes declined sharply. However, the decrease in sales and use taxes was partially offset by increased real property tax revenue which resulted from higher assessed property values and higher tax rates in fiscal year 2020. In addition, because properties were assessed and property owners were billed prior to the onset of the pandemic, property tax revenues grew despite the economic crisis resulting from the public health emergency. Income and franchise taxes also increased in fiscal year 2020 because disruption in the employment of highly compensated professionals and service professionals was minimal. Measures taken by the District in response to COVID-19, such as shifting its workforce to working remotely and adopting distance learning in its public school system helped to sustain employment and generate income taxes. In addition, although the stock market fell dramatically at the start of the COVID-19 public health crisis, it recovered with rapid gains. As a result, the stock market's strong performance also contributed to increased income taxes in fiscal year 2020.

Program revenues, which accounted for 44.74% of the District's total revenues in fiscal year 2020, increased by \$1,949,366, or 36.19%. Grants and contributions increased significantly as a result of the District receiving federal Coronavirus relief funding to support the city's unemployment compensation and COVID-19 preparedness and response programs. Such programs are mostly in the areas of Human Support Services, Public Safety and Justice, and Public Education. The Coronavirus relief funding was used to support unemployment benefit payments; costs associated with virus control efforts; increased spending in rising health care costs; education system's efforts to continue providing critical services and programs through distance learning and reopening efforts; and subsidies for housing assistance. Other factors contributed to the increase in grants and contributions, such as the additional funding provided through the increase of 6.20 percentage points in the Federal Medicaid Matching Rate for Medicaid provider payments; increased assistance received

from the Federal Emergency Management Agency; and increased support for the Supplemental Nutrition Assistance Program (SNAP) and related programs.

The District's expenses grew by \$2,773,724 in fiscal year 2020 as a result of several factors. During the fiscal year, the Unemployment Compensation Fund incurred \$1,568,065 in unemployment insurance benefits, compared to \$120,010, in fiscal year 2019. This increase of \$1,448,055, or 1,206.61% over the prior year, was covered by the \$969,704 in funding from the federal government to assist the District with its response to the pandemic. The District also used current year employers' contributions and cash reserves to cover the increased unemployment insurance benefits. The increase in Unemployment Compensation Fund expenses was due to higher unemployment rates and an increase in the claims filed by eligible unemployed former civilian federal employees impacted by the pandemic and the economic downturn, as well as the introduction of new programs as a result of the CARES Act. The new programs introduced were the Pandemic Unemployment Assistance (PUA), the Pandemic Emergency Unemployment Compensation (PEUC) and the Federal Pandemic Unemployment Compensation (FPUC) programs. In addition to the expanded unemployment programs under the CARES Act, the District also received a federal grant for Lost Wages Supplemental Payment Assistance. Further information regarding these new programs is presented in Note 13 on page 153.

Although expenses increased across all functional areas, except Public Transportation, the most significant increases were reported in the areas of Human Support Services, Public Works and Public Safety and Justice. Human Support Services expenses increased due to the District, in response to the public health crisis, providing additional financial assistance and support services to eligible recipients through the Temporary Assistance for Needy Families (TANF) program and the Supplemental Nutrition Assistance Program (SNAP). Public Safety and Justice expenses rose as a result of increased wages, salaries, and overtime pay being paid to officers of the Metropolitan Police Department (MPD), personnel in the Fire and Emergency Medical Services (FEMS) Department, and the Department of Corrections. During 2020, several protests and large-scale public events were held in the District, which required police officers to be onsite to maintain security and control. FEMS staff were also on hand during such protests and large-scale events to handle accidents and other emergency health situations. In addition, as COVID-19 spread, FEMS staff were available to respond to additional emergency calls and resources were put in place by the Department of Corrections (DOC) to address the needs of the District's inmate population. To address such needs, the DOC implemented changes and enhancements in the custody, health care, and food services programs for

inmates. Public Education expenses increased due to the expansion of services provided through Division of Early Learning and Child Care Subsidy initiatives to ensure that children in need received healthy meals and care during the public health crisis. In addition, to facilitate a virtual learning environment and prepare for the safe opening of schools, the public school system assessed data readiness; acquired data plans, devices, and technical equipment; and made the necessary staffing changes.

Expenses also increased due to other actions taken by the District to directly address and respond to needs related to COVID-19. More specifically, the District purchased medical supplies and personal protective equipment (PPE); acquired warehouse space to house medical supplies and PPE, paid for the services of contact tracing consultants and testing; acquired alternate sites and met staffing needs for medical surges; and established various isolation centers and shelters. These expenses were supported by funding made available through the Coronavirus Relief Fund.

Other infrequent activities also contributed to the increase in expenses. For instance, expenses grew further due to spending related to the 2020 Census and election activities.

The District's combined net position (governmental and business-type activities) decreased by \$156,882, or 2.36%, to \$6,502,055 in fiscal year 2020 from \$6,658,937 in fiscal year 2019. The decrease was mainly due to the significant use of reserves from the Unemployment Compensation Fund to cover increased benefit claims resulting from the impacts of COVID-19.

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 decreased by \$325,603, or 14.11%, in fiscal year 2020. The most significant decrease in restricted net position was due to increased unemployment benefits payments. Although the CARES Act relief package supported new programs which expanded unemployment benefit compensation to District residents impacted by COVID-19, the Unemployment Compensation Fund operated at a significant deficit during the fiscal year, because benefit payments exceeded federal payments and employer tax contributions during the fiscal year. Some of the decreases in restricted net position were offset by increases in amounts set aside for benefits associated with the Universal Paid Leave program. These revenues increased due to higher revenue collections during fiscal year 2020, which represented the first full year of implementation of the program.

Unrestricted net position increased by \$505,610 to \$1,217,454 in fiscal year 2020. The increase is attributable mainly to resources from long-term borrowing for capital projects that were not fully used within the fiscal year. In addition, the refunding of Income Tax Secured Bonds with a new bond covenant requiring a reduction of the bond escrow reserves from 12 months to 3 months due to the significant improvement in the District's bond ratings, contributed to the increase in unrestricted net position.

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 2020 and 2019, the Lottery transferred \$38,060 and \$45,050 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)

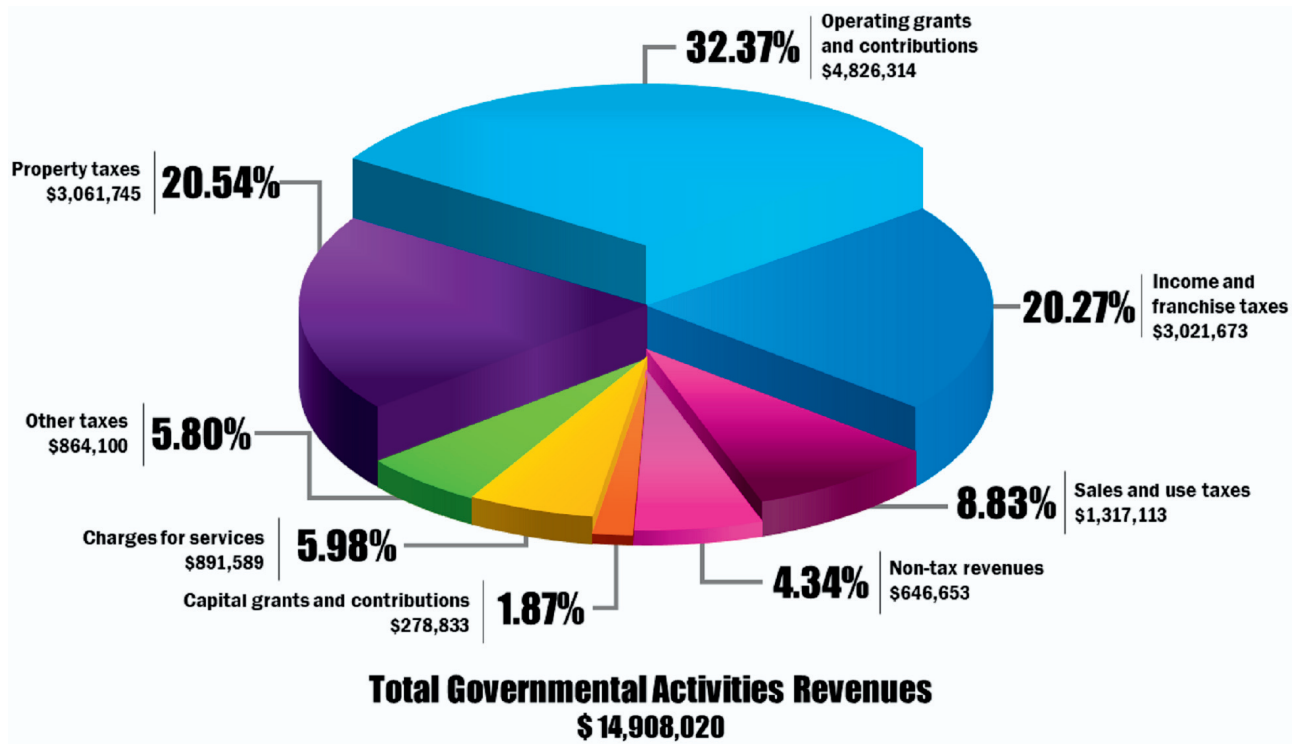
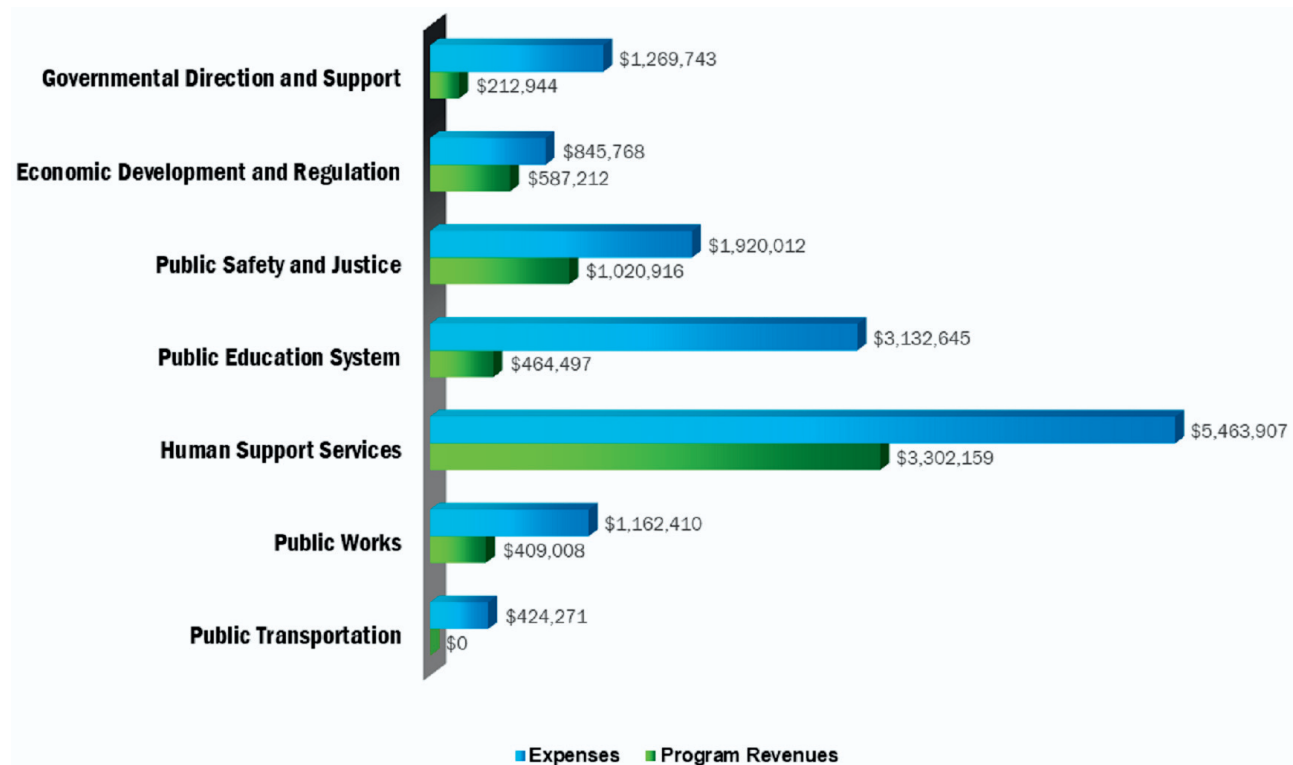


Chart MDA-2 graphically displays both expenses and program revenues of the governmental activities for fiscal year 2020. The governmental activities are: Governmental Direction and Support, Economic Development and Regulation, Public Safety and Justice, Public Education System, Human Support Services, Public Works, and Public Transportation.

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



Changes in Net Position

Total net position of governmental activities was \$6,334,839 in fiscal year 2020, which was \$261,893, or 4.31%, higher than the amount in the prior year. This increase resulted from increases in revenues from operating grants and contributions, income and franchise taxes, and property taxes. Part of that increase was offset by a decrease in sales and use taxes and other tax revenues during the fiscal year.

Net position of the business-type activities decreased by \$418,775, or 71.46%, between fiscal year 2019 and 2020. The decline in net position was due to an unprecedented increase in benefit payments made to eligible claimants in fiscal year 2020. Between fiscal years 2019 and 2020, total benefit payments made in the Proprietary Funds increased by \$1,449,489, or 1,080.70% and almost all of this increase was related to unemployment compensation. Due to the onset of COVID-19 and its lingering effects on the economy, the District's new unemployment claims rose by 309% in fiscal year 2020. Consequently, the District paid \$1,448,055 or 1,206.61% more in unemployment insurance benefits in fiscal year 2020 when compared

to the prior year. A substantial portion of the benefit payments made were covered by funding allotted to programs under the CARES Act for the following Unemployment Compensation Fund Programs: Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), and Federal Pandemic Unemployment Compensation (FPUC). Nevertheless, the District's Unemployment Compensation Fund operated at a significant deficit during the fiscal year as a result of the pandemic. The Unemployment Compensation Fund's net position decreased by \$415,858 during fiscal year 2020.

For fiscal year 2020, the Not-for-Profit Hospital Corporation experienced a loss of \$2,990 compared to the \$2,612 loss in the prior year, as a result of increases in operating expenses attributed to higher costs of medical supplies and labor, which were incurred in preparation for the COVID-19 surge.

The Lottery's change in net position was \$73 for fiscal year 2020, after transferring \$38,060 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 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 178 and 179.

Governmental Funds

The District's governmental funds provide information that is useful when assessing the financing needs of the District, 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 54 and 55, provide information about these funds.

Fund Balances

The governmental funds reported a combined fund balance of \$4,348,331 in fiscal year 2020 and \$3,579,644 in fiscal year 2019, which represents an increase of \$768,687, or 21.47%, from the prior year.

Table MDA-3 presents the components of the combined fund balances of the governmental funds.

Table MDA-3

Comparison of FY 2020 and FY 2019 Fund Balances: Governmental Funds (\$000s)

Governmental funds	2020	2019	Variance	Variance %
General	\$ 3,259,834	\$ 3,253,316	\$ 6,518	0.20%
Federal and private resources	(38,538)	150,240	(188,778)	(125.65)
Housing production trust	116,223	142,940	(26,717)	(18.69)
General capital improvements	369,847	(378,421)	748,268	197.73
Nonmajor governmental funds	640,965	411,569	229,396	55.74
Total fund balances	\$ 4,348,331	\$ 3,579,644	\$ 768,687	21.47

Fund balance in the Federal and Private Resources Fund decreased by \$188,778, or 125.65%, between fiscal years 2019 and 2020. This decrease was mainly caused by reimbursements for eligible expenditures not being received within the time frame for inclusion in the current fiscal year's financial statements. Those amounts are reported as unavailable revenues in this Fund. As a result, the balance in the unavailable revenues account increased by \$217,283, or 1,236.18% compared to the prior year.

Although operating grants and contributions grew significantly in fiscal year 2020, increases in such revenues were outpaced by increases in expenditures, primarily in the areas of Human Support Services and Public Safety and Justice. To extend fiscal relief to states and local governments, under the CARES Act, Congress increased the Federal Medicaid Matching Rate for Medicaid provider payments by 6.20 percentage points. This measure effectively reduced the amount of local funds needed to provide the same level of service to District residents. Although less local funding was needed for purposes of Medicaid

matching, local funds were used to augment certain increased Human Support Services expenditures such as the higher costs of Medicaid programs and increased spending to provide assistance and support services due to COVID-19. Public Safety and Justice revenues increased because the District received increased financial assistance from the Federal Emergency Management Agency (FEMA) that was used to combat the COVID-19 public health crisis. Consequently, expenditures increased significantly due to costs associated with the District's COVID-19 response which included the following activities: overtime pay for staff engaging in COVID-19 emergency protective measures; testing of first responders and the vulnerable population who lacked access to healthcare facilities; dissemination of public safety information; securing alternate care sites due to surges in hospitalizations; purchasing medical and cleaning supplies, including personal protective equipment for medical staff and first responders; establishing non-congregate sheltering for purposes of quarantine and isolation; and setting up food services for isolation centers.

Fund balance in the Housing Production Trust Fund decreased by \$26,717, or 18.69%, between fiscal years 2019 and 2020. This decrease resulted primarily from decreases in revenues from deed recordation and deed transfers. Revenues derived from real property transfer taxes and deed recordation taxes decreased during the fiscal year as a result of the downturn in the overall real estate activity, due to the pandemic.

The most significant fund balance increase within the governmental funds was in the General Capital Improvements Fund, which reported a positive fund balance of \$369,847 as of September 30, 2020. This

significant increase of \$748,268, or 197.73%, from the prior year's negative fund balance of \$378,421, was attributed to the issuance of bonds, the proceeds of which were used to fund certain capital projects and reduce debt service costs.

Fund balance in the Nonmajor Governmental Funds increased by \$229,396 or 55.74% between fiscal years 2019 and 2020. This increase was mainly attributed to funding of Universal Paid Leave.

Fund balance in the General Fund, which is the District's primary operating fund, increased by \$6,518, or 0.20% over the one-year period. A detailed discussion of the District's General Fund follows.

Revenues

General Fund revenues decreased by \$290,438 in fiscal year 2020. **Table MDA-4** presents the most significant variances in General Fund revenues.

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

Revenue category	2020	2019	Variance	Variance %
Property taxes	\$ 2,960,006	\$ 2,822,535	\$ 137,471	4.87%
Sales and use taxes	1,281,200	1,646,523	(365,323)	(22.19)
Income and franchise taxes	3,104,933	2,941,982	162,951	5.54
Total	\$ 7,346,139	\$ 7,411,040	\$ (64,901)	(0.88)

Property Taxes

The strong growth in real property tax revenues amid the economic disruption, which was induced by the pandemic, was due to higher than expected billing and collection rates of property taxes during fiscal year 2020. Property tax revenues increased because the 2020 property values were assessed at higher rates and billed prior to the outbreak.

Sales and Use Taxes

The District reported a significant decline in sales and use tax revenues in fiscal year 2020. This decrease is primarily the result of the uncertainty and curtailment in economic activity combined with the impact of the containment measures and restrictions imposed in response to COVID-19. Consequently, revenue sources, which are tied to in-person customers, commuters, or occupied offices were diminished. The highest drop in sales and use tax revenues was reported by hotels, entertainment venues, and in-person dining sectors.

Income and Franchise Taxes

Income and franchise tax revenues increased steadily during the fiscal year despite the economic contraction. The growth in individual income taxes is mainly the result of strong withholding performance driven by highly paid professional and management workers who continued to work remotely and by doing so, their work was relatively unaffected by the closures and social distancing measures put in place to slow the spread of COVID-19. That growth outpaced the loss in wages experienced in low-income pay sectors and the negatively impacted hospitality industry wages. The increases in franchise tax revenue on the other hand was attributed to a favorable stock market, which contributed to the increases in non-withholding and corporate franchise tax revenues. Increased payments for prior year taxes also contributed to the growth in corporate franchise taxes.

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 2020, the District dedicated a total of \$647,864 in tax revenues, which was 19.50% lower compared to the prior year, to fund the projects presented in **Table MDA-5**. The highest decline was reported in

revenues from taxes dedicated to the Washington Convention and Sports Authority. These tax revenues are generated by activities in the hospitality sector, which were severely impacted by necessary COVID-19 related restrictions. During fiscal year 2020, taxes dedicated to the Washington Convention and Sports Authority, which consist of separate sales and use taxes assessed on hotel rooms, restaurant meals, alcoholic beverages consumed on-premises, and rental vehicle charges, decreased by \$73,566 or 49.83%, compared to fiscal year 2019.

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	\$ -	\$ 74,067	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,067
Department of General Services	-	-	-	21	68	-	-	89
Walter Reed Development Fund	765	-	-	-	-	-	-	765
Healthcare programs	-	1,513	-	-	-	-	83,327	84,840
Highway Trust Fund	-	-	-	-	-	22,472	-	22,472
WMATA	-	230,811	-	-	-	-	-	230,811
Healthy schools	-	5,110	-	-	-	-	-	5,110
Alcoholic Beverage Regulation Administration	-	1,170	-	-	-	-	-	1,170
Arts and Humanities	-	32,289	-	-	-	-	-	32,289
Sports Wagering - DBH Gambling	-	-	273	-	-	-	-	273
Addiction Treatment"	-	-	-	3,641	2,652	-	-	6,293
HPTF debt service	-	-	-	-	-	-	-	-
Total general fund	765	344,960	273	3,662	2,720	22,472	83,327	458,179
Special revenue funds								
Tax increment financing program	15,476	14,068	-	-	-	-	-	29,544
PILOT special revenue	28,136	9,705	-	-	-	-	-	37,841
Baseball project	-	12,139	47,524	-	-	-	-	59,663
Housing Production Trust	-	-	-	36,919	24,862	-	856	62,637
Total special revenue funds	43,612	35,912	47,524	36,919	24,862	-	856	189,685
Total dedicated taxes	\$ 44,377	\$ 380,872	\$ 47,797	\$ 40,581	\$ 27,582	\$ 22,472	\$ 84,183	\$ 647,864

Expenditures

The District's General Fund expenditures, excluding debt service, decreased by \$7,483 from the previous year. **Table MDA-6** presents variances by function.

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

Function	2020	2019	Variance	Variance %
Governmental direction and support	\$ 1,009,090	\$ 1,031,085	\$ (21,995)	(2.13)%
Economic development and regulation	528,294	493,879	34,415	6.97
Public safety and justice	1,069,045	1,236,656	(167,611)	(13.55)
Public education system	2,484,012	2,357,340	126,672	5.37
Human support services	2,137,355	2,148,238	(10,883)	(0.51)
Public works	466,542	433,141	33,401	7.71
Public transportation	424,271	425,753	(1,482)	(0.35)
Total functional expenditures	\$ 8,118,609	\$ 8,126,092	\$ (7,483)	(0.09)

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

Governmental Direction and Support

Governmental Direction and Support expenditures decreased in fiscal year 2020 due to elimination of one-time initiatives in the Department of Employment Services (DOES). Because of COVID-19, restrictions in spending were implemented which further reduced DOES expenditures. Other decreases in expenditures during the fiscal year were attributed to lower litigation spending. Litigation expenditures declined as a result of significant activity disruptions caused by closures and cancellation of scheduled hearings and proceedings due to the pandemic. Further decreases resulted from the postponement of certain settlements and judgments which were projected to occur during the fiscal year. Certain decreases in expenditures were associated with declines in revenues from dedicated taxes, which were impacted by the pandemic. Revenues derived from the leisure and hospitality industry such as sales and use taxes assessed on hotel rooms, restaurant meals, alcoholic beverages consumed on-premises and rental vehicles, decreased due to COVID-19. As a result, the District substantially decreased transfers to component units and other entities compared to fiscal year 2019. Other COVID-19 related factors including, spending freezes and restrictions, hiring delays, and lower contractual services as a result of decreases in usage of energy and utilities, contributed to that decrease. Some of the decreases in spending were partially offset by the cost of medical supplies and personal protective equipment (PPE). The Office of Contracting and Procurement purchased medical supplies and PPE including gowns, respirators, disposable gloves, goggles, face shields, one-piece hazmat suits, surgical masks, and ventilators on behalf of District agencies, to limit the spread of COVID-19 and implement strategies to address this public health crisis.

Economic Development and Regulation

Economic Development and Regulation expenditures increased mostly as a result of funding being allotted to the District of Columbia Housing Authority to support the Local Rent Supplement Program. This program provides housing and rental assistance for low-income families and individuals as part of the District's affordable housing initiative. Other factors also contributed to increased Economic Development and Regulation expenditures. In connection with the 2020 Census activities, the District incurred costs for the services of specialized consultants to provide planning studies and conduct community engagement activities. In addition, the District reimbursed the Walter Reed Redevelopment developer for expenditures incurred for the maintenance and upkeep of the Walter Reed campus. Expenditures also increased as a result of grants and contracts being provided to support certain economic development projects and activities including Corporate Assistance, Business Development, the St. Elizabeth's Sports and Entertainment Arena, COVID-19 relief grants, and the New Communities Project. Spending also increased to support the ongoing developments at the Wharf, in the Southwest Business Improvement District (SWBID). The increases in Economic Development and Regulation expenditures were partially offset by reduced spending in the Home Purchase Assistance Program (HPAP), as a result of an overall drop in real estate activity due to COVID-19.

Public Safety and Justice

Expenditures in Public Safety and Justice decreased during fiscal year 2020 due to certain eligible local costs being reclassified to federal payment funding sources. As a result of these reclassifications, costs associated with the following services and programs were supported by the Federal COVID-19 relief funding rather than local funds: certain Metropolitan Police Department services, certain Fire and Emergency Medical Services, Inmate Custody and Inmate Services programs, and related healthcare and food services. A portion of the Federal COVID-19 relief funding was used to pay the salaries of police officers and correctional officers, including overtime costs, through the end of fiscal year 2020.

Other decreases in Public Safety and Justice expenditures were the result of budget freezes and waivers being required to purchase goods and services to fulfill critical needs only. Hiring delays due to COVID-19, combined with continued retirements and other separation of employees during the year further contributed to the decrease in expenditures.

Public Education System

Increases in Public Education System expenditures are mostly attributed to an increase in the Uniform Per Student Funding Formula and certain funding enhancements made to support the DC Public Charter Schools, in accordance with the Special Needs Public Charter School Funding Authorization Act of 2019. In addition, expenditures increased during the fiscal year due to increased costs to support the Division of Early Learning and Child Care Subsidy initiatives and services. Additional increases in expenditures were attributed to a rise in full-time positions to support staffing needs primarily in the data, assessments, research, and K-12 systems and support divisions. Furthermore, Public Education System expenditures increased as a result of a one-time increase in the Child Care Subsidy Program to maintain subsidized childcare reimbursement payment rates, and support the District's Quality Rating and Improvement System that measures program quality and focuses on continuous improvement. Expenditures also increased due to appropriations being made to fund the District of Columbia Teacher's Retirement Fund and a one-time settlement payment being made to an employee.

Human Support Services

The District, through Human Support Services agencies, provides an array of services, to sustain, support and assist the most vulnerable residents in the District, with programs including Medicaid, Temporary Assistance for Needy Families and

the Supplemental Nutrition Assistance Program. Human Support Services expenditures decreased in fiscal year 2020 due to several factors. The District Department of Health Care Finance experienced a surplus in Medicaid provider payments as a result of an increase in the Federal Medicaid Matching Rate by 6.20 percentage points. As a result, the amount of local funds needed to provide the same level of service decreased. Other factors also contributed to the decrease in Human Support Services expenditures. Due to the pandemic, enrollment rates for program services declined during the economic downturn. Furthermore, due to COVID-19, non-essential medical visits were curtailed leading to an unprecedented drop in utilization of services. Some of the decreases in expenditures were partially offset by factors such as: increase in expenditures in the Family Rehousing and Stabilization Program (FRSP) due to budget enhancement received by various homeless services programs; TANF child care costs being charged to local sources; and increased cost in personal services for School-Based Mental Health contracts, Substance Use Disorder services contracts and Mental Health Rehabilitation Services, along with higher cost of care for Medicaid clients.

Public Works

Expenditures in Public Works increased during fiscal year 2020 due to funding provided to support sustainable projects and programs in accordance with D.C. Act 22-583. Pursuant to this legislation, the Department of Energy and Environment is required to make annual transfers totaling \$70 million to the District of Columbia Green Finance Authority as follows: \$15 million in fiscal years 2020 and 2021, and \$10 million, beginning in fiscal year 2022 through 2025. The actual fiscal year 2020 transfers to the District of Columbia Green Finance Authority were lower as a result of reduction in revenue collections due to COVID-19. Some of the increases in expenditures were attributed to higher costs associated with adjudication services for ticket processing and hearings. In previous years, a significant portion of the ticket processing costs was paid by the Metropolitan Police Department; in fiscal year 2020, the District Department of Motor Vehicles was required to pay the entire cost of the ticket processing program.

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). The overall transfers to WMATA from the District in fiscal year 2020 were lower than in previous years due to reduced service levels as a result of COVID-19.

Capital Expenditures and Financing

During fiscal year 2020, the District spent \$1,790,236 on general capital improvements which exceeded the general capital improvements revenues of \$281,158 by \$1,509,078. This deficiency was subsequently financed with a net total of \$2,257,346 from bond proceeds and other financing sources and uses. The net change in fund balance was an increase of \$748,268, which resulted in a cumulative positive fund balance of \$369,847.

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 2020, the Housing Production Trust Fund (HPTF) long-term loan receivable balance was \$1,054,156, an increase of \$203,876 or 23.98% 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, 2020, this net balance was \$99,182. Repayment activity declined by approximately 17.00% due to COVID-19 because some borrowers requested forbearance as a result of reduced rental income and other economic factors. However, these loans are expected to be repaid over the long term.

Table MDA-7 presents the Housing Production Trust Fund long-term loan receivable balances and the corresponding allowance for doubtful accounts for fiscal years 2016 through 2020.

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

	2016	2017	2018	2019	2020
HPTF long-term loans receivable	\$ 495,820	\$ 605,479	\$ 722,295	\$ 850,280	\$ 1,054,156
Less: allowance for doubtful accounts	440,948	510,465	624,559	756,321	954,974
Net long-term loans receivable (other long-term assets)	\$ 54,872	\$ 95,014	\$ 97,736	\$ 93,959	\$ 99,182

Proprietary Funds

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

The total assets of the Lottery increased by \$3,514, or 18.63%, compared to the prior year, due to an increase in cash balance that will be used to cover amounts due to customers and prize payouts.

During fiscal year 2020, the Unemployment Compensation Fund's total assets decreased by \$290,796, or 53.97%, primarily as a result of unemployment benefit payments significantly exceeding collections from employer taxes and governmental contributions. Cash held with U.S. Treasury, which represented 79.26 % of the Fund's

total assets, declined by \$381,112 or 72.73% from the prior year. This decrease was due to revenues being insufficient to cover the unusually high demand for unemployment benefit payments caused by the COVID-19 pandemic.

The total assets of the Not-for-Profit Hospital Corporation increased by \$22,694, or 18.58%, as a result of unspent CARES Act related federal funds received and an increase in inventories.

Total net position of the District's proprietary funds decreased by \$418,775, or 71.46%, over the prior year. Exhibits 3-a, 3-b, and 3-c on pages 58 through 60 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 59.

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

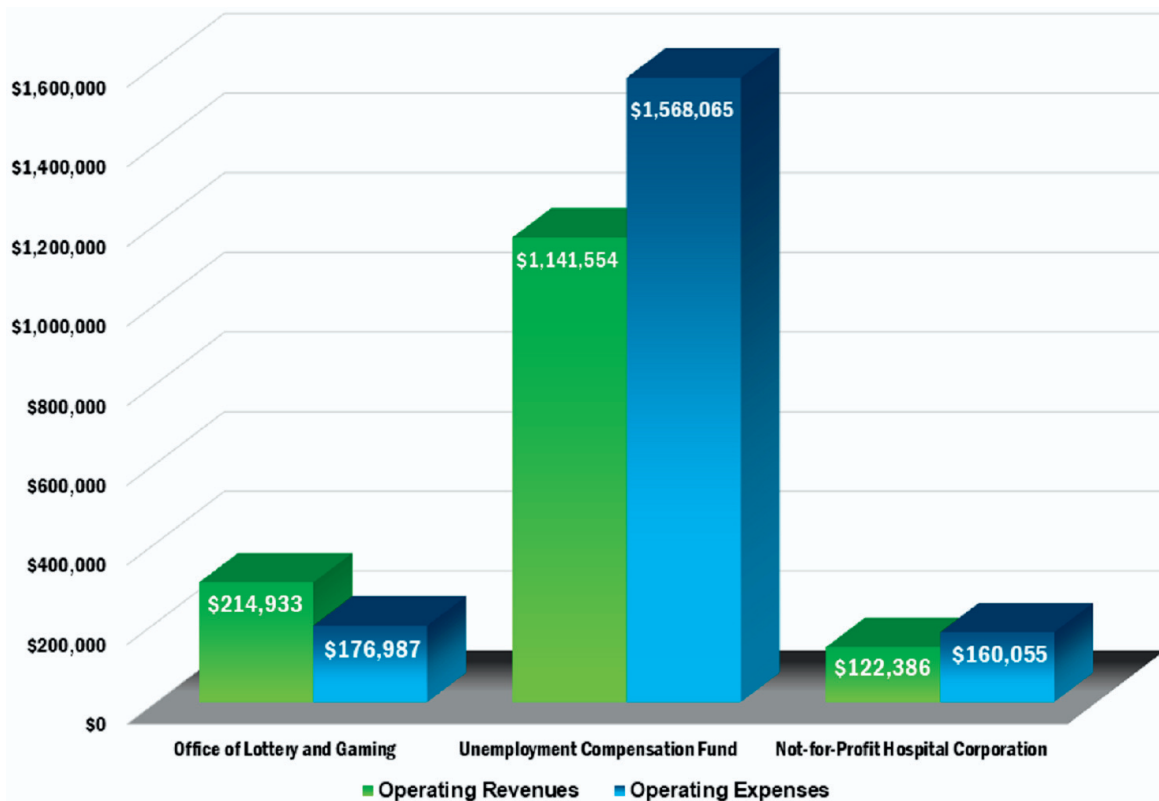
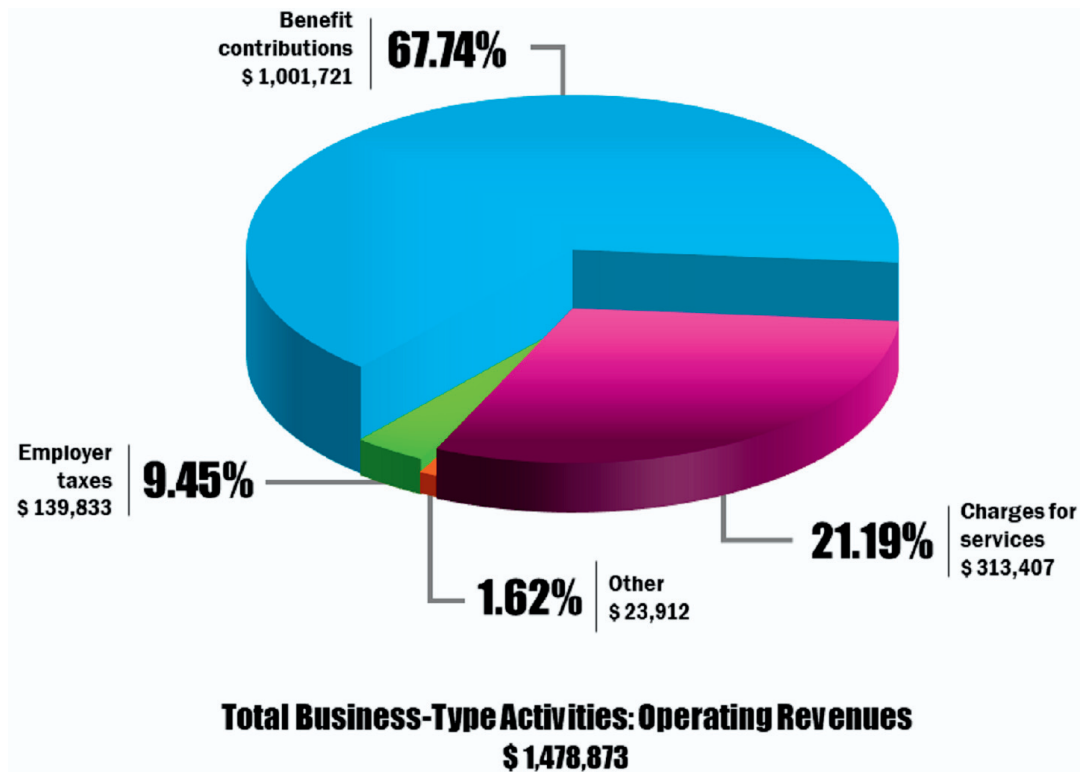


Chart MDA-4
Operating Revenues by Source: Business-Type Activities (\$000s)



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 61 and 62, respectively. Exhibits C-1, C-2, and C-3, presented on pages 182, 183, and 184, 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.

Table MDA-8 presents the net position restricted for Pension and OPEB Trust Funds.

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

Trust fund	2020	2019	Variance	Variance %
Police and fire fighters pension	\$ 6,620,190	\$ 6,256,363	\$ 363,827	5.82%
Teachers pension	2,411,390	2,264,482	146,908	6.49
Other postemployment benefits	1,640,682	1,509,103	131,579	8.72
Total net position restricted for pension and OPEB trust funds	\$ 10,672,262	\$ 10,029,948	\$ 642,314	6.40

Net position of the fiduciary funds increased mainly because of positive investment returns in fiscal year 2020.

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, or (c) the District holds majority equity interest, which does not meet the definition of investment in the entity. Consistent with these criteria, the District reports five discretely presented component units: (1) Health Benefit Exchange Authority, (2) Washington Convention and Sports Authority (t/a Events DC), (3) District of Columbia Green Finance Authority, (4) Housing Finance Agency, and (5) 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 District's 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 63 and 64, respectively, present the component units' financial information for fiscal year 2020. 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 et. seq.). 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, 2020, the District (including its business-type activities) had \$14,502,287 in long-term debt outstanding, of which \$11,830,937, or 81.58%, was in the form of bonds and notes. Of the outstanding bonds, \$5,396,870, or 45.62% were General Obligation Bonds, and \$5,085,465, or 42.98% were Income Tax Secured Revenue Bonds.

Table MDA-9 presents the outstanding bonds and notes of the District as of September 30, 2020.

Table MDA-9
Outstanding Bonds and Notes as of September 30, 2020 (\$000s)

Type of bonds and notes	2020	2019	Variance	Variance %
General obligation bonds - publicly offered	\$ 4,852,005	\$ 5,037,300	\$ (185,295)	(3.68)%
General obligation bonds - direct placements	544,865	574,515	(29,650)	(5.16)
Income tax secured revenue bonds	5,085,465	3,617,225	1,468,240	40.59
Other bonds:				
Qualified zone academy bonds (QZAB) - direct placements	1,558	2,012	(454)	(22.56)
Tobacco bonds	516,329	538,644	(22,315)	(4.14)
Tax increment financing bonds - publicly offered	97,124	84,222	12,902	15.32
Tax increment financing bonds - direct placements	17,400	17,400	-	-
Ballpark revenue bonds	186,710	230,165	(43,455)	(18.88)
Federal highway grant anticipation revenue bonds (GARVEE)	294,170	74,715	219,455	293.72
Deed tax revenue bonds (housing production trust fund program)	37,520	104,400	(66,880)	(64.06)
PILOT revenue bonds - publicly offered	141,115	145,445	(4,330)	(2.98)
PILOT revenue bonds and notes - direct placements	56,676	53,233	3,443	6.47
Total outstanding bonds and notes - governmental activities	\$ 11,830,937	\$ 10,479,276	\$ 1,351,661	12.90

During fiscal year 2020 the District issued \$3,022,670 in Income Tax Secured Bonds with \$1,468,240 to finance capital projects and \$1,554,430 to refund (refinance) outstanding debt. The debt issuances are as follows:

- \$1,749,925 in Income Tax Secured Revenue Bonds, Series 2019A, 2019B, 2020A, and 2020C were issued to finance capital project expenditures under the capital improvements plan of the District, refinance ITS bond anticipation notes, and pay the costs and expenses of issuing the bonds. Interest rates on the bonds range from 1.78% to 5.00%.
- \$1,272,745 in Income Tax Secured Revenue Refunding Bonds, Series 2019C, 2020B and

2020D were issued to refund a portion of the outstanding bonds of the District. The refunding produced an aggregate difference in debt service of \$393,534 and an economic gain of \$337,972.

In February 2020, the District issued \$227,710 Series 2020 Federal Highway Grant Anticipation Revenue Bonds. Proceeds of the Series 2020 GARVEE bonds will be used to finance certain costs to rebuild and replace the Frederick Douglass Memorial Bridge and to construct new interchanges conveying traffic to the Bridge.

For more information on the long-term debt activity of the District, refer to Note 7, Long-Term Liabilities, on pages 121 through 136.

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 2020, total net capital assets (capital assets less accumulated depreciation) increased by \$782,554, or 5.36%, 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, 2020, net capital assets totaled \$15,385,842. Net capital assets of the governmental activities totaled \$15,315,706 and net capital assets of the business-type activities totaled \$70,136. The governmental activities depreciation charges for fiscal year 2020 totaled \$512,964 compared to the prior year's amount of \$459,009. The business-type activities depreciation charges for fiscal year 2020 totaled \$13,353 compared to the prior year's amount of \$11,618.

Table MDA-10 presents information on the District's net capital assets by class as of September 30, 2020.

Table MDA-10
Net Capital Assets by Asset Class as of September 30, 2020 (\$000s)

Asset class	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Land	\$ 978,787	\$ 964,409	\$ 8,100	\$ 8,100	\$ 986,887	\$ 972,509
Buildings	8,041,903	7,567,567	45,359	46,043	8,087,262	7,613,610
Infrastructure	4,133,216	3,864,471	-	-	4,133,216	3,864,471
Equipment	456,246	461,649	15,100	13,866	471,346	475,515
Construction in progress	1,705,554	1,676,343	1,577	840	1,707,131	1,677,183
Total net capital assets	\$ 15,315,706	\$ 14,534,439	\$ 70,136	\$ 68,849	\$ 15,385,842	\$ 14,603,288

Note:

Additional information on the District's capital assets is presented in Note 5, Capital Assets, on pages 110 through 114.

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 for the fiscal year ended September 30, 2020.

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	\$ 8,197,899	\$ 7,900,736	\$ 8,047,024	\$ 146,288
Licenses and permits	132,079	122,572	125,584	3,012
Fines and forfeitures	167,535	148,200	147,943	(257)
Charges for services	79,177	72,668	68,723	(3,945)
Miscellaneous	132,854	151,721	180,645	28,924
Other sources	711,033	574,667	612,092	37,425
Bond proceeds	9,000	9,000	9,403	403
Fund balance released from restrictions	399,530	699,435	621,220	(78,215)
Interfund transfer from office of lottery and gaming	61,990	39,447	38,060	(1,387)
Interfund transfer - others	15,305	26,194	27,637	1,443
Total revenues and other sources	9,906,402	9,744,640	9,878,331	133,691
Expenditures and other uses				
Governmental direction and support	888,614	929,856	900,101	29,755
Economic development and regulation	647,588	623,122	587,665	35,457
Public safety and justice	1,246,899	1,089,149	1,068,903	20,246
Public education system	2,414,784	2,472,831	2,462,251	10,580
Human support services	2,260,373	2,152,951	2,107,206	45,745
Public works	971,831	934,497	888,774	45,723
Repayment of bonds and interest	818,767	802,285	798,682	3,603
Other expenditures and uses	656,263	539,706	511,927	27,779
Total expenditures and other uses	9,905,119	9,544,397	9,325,509	218,888
Excess of revenues and other sources over expenditures and other uses - budgetary basis	\$ 1,283	\$ 200,243	\$ 552,822	\$ 352,579

Revenues and Other Sources

As presented in **Table MDA-11**, actual General Fund revenues and other sources were \$133,691, or 1.37%, more than the revised budget. This variance was primarily due to increased funding to support higher expenditures as a result of the pandemic, and the use of federal funding afforded by the CARES Act to finance certain COVID-19 programs and 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**, the District utilized the fund balance by drawing on its available reserves to finance costs associated with the pandemic response during the fiscal year.

During fiscal year 2020, taxes comprised 81.46% 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 2020.

Chart MDA-5
FY 2020 Budgetary Comparison – Tax Revenues
Original and Revised Budgets with Actual Results (\$000s)



Note:

For more detailed information, refer to the Schedule of Local Source Revenues for the General Fund, Exhibit A-4, presented on page 173.

Expenditures and Other Uses

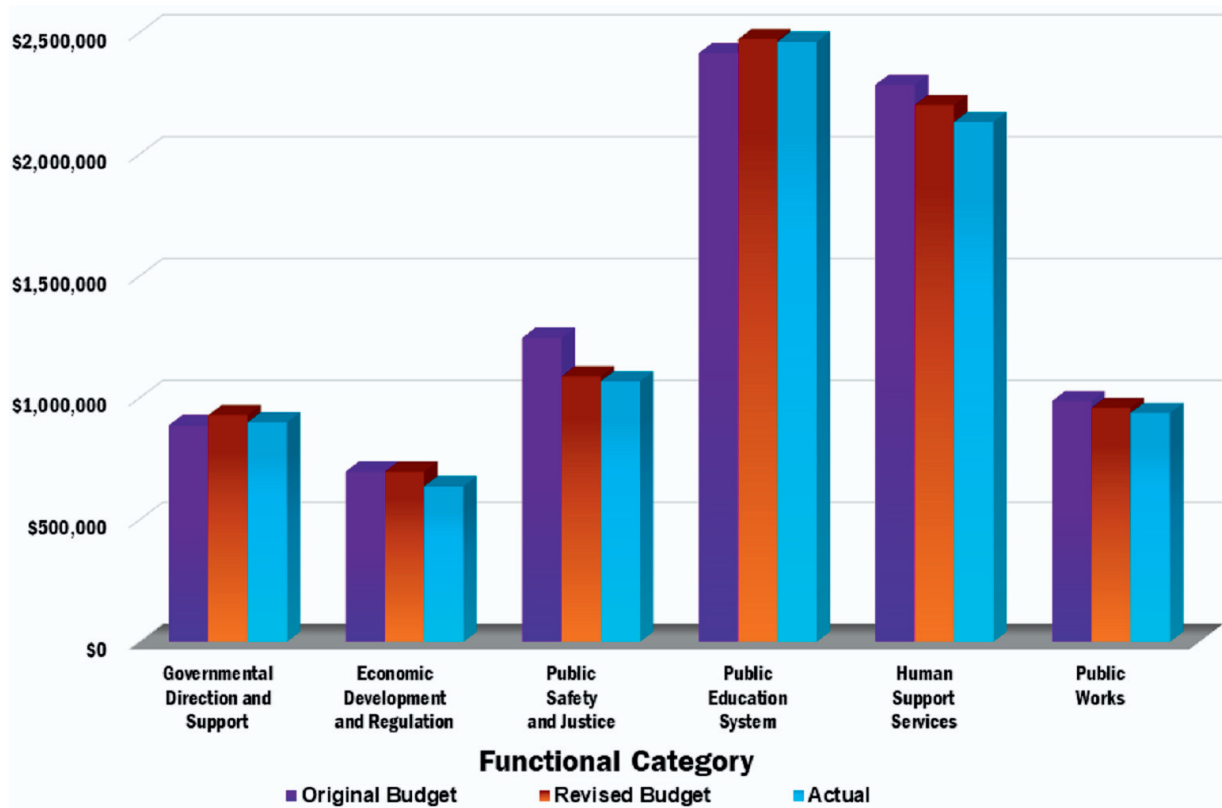
Actual General Fund expenditures and other uses were \$218,888, or 2.29%, less than the revised budget. As presented in **Table MDA-11**, this variance was primarily due to underspending in the areas

of Human Support Services, Public Works, and Economic Development and Regulation.

Expenditures in Public Education, Human Support Services, and Public Safety and Justice comprised 60.46% 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 2020.

Chart MDA-6
FY 2020 Budgetary Comparison – General Fund Expenditures (by Function)
Original and Revised Budgets with Actual Results (\$000s)



Note:

For more detailed information, refer to the budgetary schedule for the General Fund, Exhibit A-6, which is presented on page 175.

SUBSEQUENT EVENTS

Coronavirus Relief Fund

In response to the COVID-19 pandemic, the federal government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide economic assistance to states, local, and other governments, including the District. The Coronavirus Relief Fund provided by this Act may only cover expenses that are (1) necessary expenditures due to the public health emergency resulting from COVID-19; (2) were not included in the government's most recently approved budget as of March 27, 2020; and (3) were incurred during the period March 1 through December 31, 2021. The District received \$1,309,168 in advance payment prior to September 30, 2020, and due to timing, \$185,018 of these funds were unspent at fiscal year-end. The District will review all relief funds expended after September 30, 2020. Amounts which remained unspent at December 31, 2021 will be returned to the U.S. Treasury.

Ongoing Impact of COVID-19 on the District Economy and Revenue

In fiscal year 2020, COVID-19 and the restrictions imposed on businesses and individuals to control the spread of the virus drove the District's economy into a recession, reducing the District's revenues. The recent revenue forecast projects that the economy will recover by the end of calendar year 2021, but with the virus surging and restrictions to control the virus extended, COVID-19 will continue to negatively affect the District's economy and revenues. The December revenue forecast projects a reduction in fiscal year 2021 revenues of about 3.00% over the previous year. Most of the impact is expected in the winter because of the restrictions imposed on restaurants, hotels, and other businesses with the resurgence of the virus. The availability and deployment of vaccines is expected to boost the District's economy and revenues in the latter half of the fiscal year.

CONTACT INFORMATION FOR THE 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

John A. Wilson Building
1350 Pennsylvania Avenue, NW, Suite 203
Washington, DC 20004
(202) 727-2476
<https://cfo.dc.gov>