

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2022

(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, 2022, 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 2022 continued to be impacted by the Coronavirus-19 (COVID-19) global pandemic, though less than in fiscal year 2021. Prior to the onset of this unprecedented public health crisis, the District experienced 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 has continued to proactively address and respond to circumstances resulting from this public health crisis. During fiscal year 2022, the District continued re-opening and by the end of fiscal year 2022, there were signs of economic recovery in the hospitality industry and entertainment and retail sectors although increased remote work opportunities led to an increase in commercial office space vacancies. Prudent management practices employed by the District have largely mitigated the financial impact of COVID-19 and operating results for the year ending September 30, 2022 continued to be strong.

FINANCIAL HIGHLIGHTS

- During fiscal year 2022, total District revenues increased by \$991,914. This change was caused by an increase of \$1,113,485 in general revenues which was offset by a decrease of \$121,571 in program revenues. The most significant decrease in program revenues occurred in operating grants and contributions and capital grants and contributions, both of which fell by a combined total of \$270,265. The decrease was due primarily to the reduction in financial support received through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the expiration of certain stimulus funding offered through the American Rescue Plan Act of 2021 (ARPA). (See **Table MDA-3**)

As previously noted, general revenues increased by \$1,113,485, or 11.43% in fiscal year 2022. The most significant dollar increases in general revenues were in income and franchise tax which increased by \$615,820 or 17.66%, and in sales and use tax, which increased by \$503,925 or 38.46%. The increase in sales and use tax revenues was mainly due to steady performance of retail sales and the strong rebound in hotel and restaurant tax revenues. Further, a strong job market and high inflation rates have helped retail revenues achieve steady growth over the last year. Solid economic and stock market performance in fiscal year 2021 resulting in income tax return payments in fiscal year 2022 from high capital gains contributed to the increase in income and franchise tax revenues for fiscal year 2022. (See **Table MDA-3**)
- Total expenses increased by \$668,052, or 3.81%, during fiscal year 2022. The most significant increases in expenses were in Human Support Services, which rose by \$718,606 or 11.90% over the one-year period, and the Public Education System which increased by \$533,851, or 15.70%, over the same period. The primary increase in Human Support Services expenses reflects the impact of higher enrollment in the Medicaid program along with higher Medicaid rates and related expenditures. The increase in Public Education System expenses was due to a myriad of factors, including the associated costs of transitioning from a mostly virtual learning environment to in-person learning. These expenditures, along with other increases in total expenditures, were partially offset by a decrease in Unemployment compensation expenses. Unemployment compensation expenses decreased by \$1,457,804, or 97.33%, during fiscal year 2022 primarily due to an overall reduction in unemployment benefit claims under the CARES Act and ARPA. The seasonally adjusted September 2022 unemployment rate in the District declined to 4.70% compared to the September 2021 revised seasonally adjusted rate of 6.50%. Decreased unemployment and the expiration of certain federal unemployment benefits offered through ARPA resulted in a decline in unemployment benefit payments. (See **Table MDA-3**)

- Total net position increased by \$1,149,723 to \$8,477,639 or 15.69%, over the prior year. This increase was led largely by an overall increase in tax revenues, particularly from income and franchise taxes, and sales and use taxes. Total expenditures rose, although less sharply than total revenues, due to increased enrollment of Medicaid participants, and the associated program expenditures, and increased costs of moving from a remote work environment to the reopening of schools, offices and retail in the District. Overall, District revenues from taxes and other sources were higher in fiscal year 2022 due to stronger economic performance, resulting in an increased net position for the District by the end of fiscal year 2022. (See **Table MDA-2**)
- The District's total long-term liabilities increased by \$1,941,599, or 13.09%, from the prior year. The increase was mainly due to the District issuing General Obligation Bonds and Income Tax Secured Revenue Bonds to finance capital project expenditures under the capital improvement plan of the District. In addition, the increases in liabilities from right-to-use leased assets, District retirement funds, and other postemployment benefits (OPEB) contributed to the increase in long-term liabilities. The District retirement funds and OPEB reported a combined net liability in this fiscal year compared to none in the prior fiscal year. (See **Table MDA-2**)
- The combined fund balances of the governmental funds increased by \$2,022,453, to \$5,866,712 in fiscal year 2022. The most significant increase in fund balance was in the General Fund, and this was caused by higher revenues reported in the income and franchise tax and sales and use tax sources in fiscal year 2022. Further, the combined fund balance in total also increased due to a positive swing in the General Capital Improvements Fund, primarily from proceeds from the sale of bonds used to fund capital projects in fiscal year 2022. (See **Table MDA-4**)

OVERVIEW OF THE FINANCIAL STATEMENTS

Table MDA-1 summarizes the major features of the financial statements of the District. The overview section below also describes the structure and contents of each of the statements in more detail.

**Table MDA-1
Summary of the Financial Statements of the District**

	Government - wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Financial Statement Title	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Budgetary Comparison Statement	Statement of Net Position Statement of Revenues, Expenses, and Changes in Net Position Statement of Cash Flows	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Scope	Entire District entity (except fiduciary funds)	The day-to-day operating activities of the District for basic governmental services	The day-to-day operating activities of the District for business-type enterprises	Instances in which the District administers resources on behalf of others in a trustee capacity, such as employee benefits
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of balance information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Balances of spendable resources	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	All resources held in a trustee or custodial capacity for others
Type of inflow and outflow of resources	All inflows and outflows during the year, regardless of when cash is received or paid	Near-term inflows and outflows of spendable resources	All inflows and outflows during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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 mainly 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 as of September 30, 2022. 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 56 and 57, respectively.

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 the accounting basis used to prepare fund financial statements differs from that used to prepare 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 58 through 60.

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 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 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 proprietary funds, are presented in Exhibits 3-a, 3-b, and 3-c on pages 62 through 64.

Financial Statements of the Fiduciary Funds

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

The fiduciary fund statements are prepared using the full accrual basis of accounting which is also 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 65 and 66, respectively.

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 67 and 68, respectively. 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 69, 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 165 through 171.

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 173 through 203.

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-2** and **MDA-3**. The information for fiscal years 2022 and 2021 is based on the government-wide financial statements presented on pages 56 and 57.

Table MDA-2
Net Position as of September 30, 2022 and 2021 (\$000s)

	Governmental activities		Business-type activities		Totals		Variance
	2022	2021, as restated	2022	2021, as restated	2022	2021, as restated	
ASSETS							
Current and other assets	\$ 10,917,043	\$ 11,395,534	\$ 288,659	\$ 234,536	\$ 11,205,702	\$ 11,630,070	\$ (424,368)
Capital assets, net	17,410,338	16,747,455	52,142	66,593	17,462,480	16,814,048	648,432
Total assets	28,327,381	28,142,989	340,801	301,129	28,668,182	28,444,118	224,064
DEFERRED OUTFLOWS OF RESOURCES	1,363,465	110,109	-	-	1,363,465	110,109	1,253,356
LIABILITIES							
Long-term liabilities	16,751,402	14,803,987	20,135	25,951	16,771,537	14,829,938	1,941,599
Other liabilities	3,396,333	3,955,230	89,939	156,374	3,486,272	4,111,604	(625,332)
Total liabilities	20,147,735	18,759,217	110,074	182,325	20,257,809	18,941,542	1,316,267
DEFERRED INFLOWS OF RESOURCES	1,296,199	2,284,769	-	-	1,296,199	2,284,769	(988,570)
NET POSITION							
Net investment in capital assets	3,138,401	3,944,820	49,487	62,610	3,187,888	4,007,430	(819,542)
Restricted	2,341,832	2,374,782	165,212	45,158	2,507,044	2,419,940	87,104
Unrestricted	2,766,679	889,510	16,028	11,036	2,782,707	900,546	1,882,161
Total net position	\$ 8,246,912	\$ 7,209,112	\$ 230,727	\$ 118,804	\$ 8,477,639	\$ 7,327,916	\$ 1,149,723

Table MDA-3
Change in Net Position for the Fiscal Year Ended September 30, 2022 and 2021 (\$000s)

	Governmental activities		Business-type activities		Totals		Variance
	2022	2021	2022	2021	2022	2021	
REVENUES							
Program revenues							
Charges for services	\$ 948,767	\$ 824,720	\$ 383,985	\$ 359,338	\$ 1,332,752	\$ 1,184,058	\$ 148,694
Operating grants and contributions	6,941,860	5,870,607	25,264	1,267,261	6,967,124	7,137,868	(170,744)
Capital grants and contributions	209,696	309,217	-	-	209,696	309,217	(99,521)
General revenues							
Property taxes	2,876,250	3,152,529	-	-	2,876,250	3,152,529	(276,279)
Sales and use taxes	1,814,079	1,310,154	-	-	1,814,079	1,310,154	503,925
Income and franchise taxes	4,102,718	3,486,898	-	-	4,102,718	3,486,898	615,820
Other taxes	1,145,764	958,678	136,267	145,775	1,282,031	1,104,453	177,578
Non-tax revenues	774,483	683,438	2,849	1,453	777,332	684,891	92,441
Total revenues	18,813,617	16,596,241	548,365	1,773,827	19,361,982	18,370,068	991,914
EXPENSES							
Governmental direction and support	1,654,463	1,412,671	-	-	1,654,463	1,412,671	241,792
Economic development and regulation	858,316	722,913	-	-	858,316	722,913	135,403
Public safety and justice	2,242,005	1,880,627	-	-	2,242,005	1,880,627	361,378
Public education system	3,933,866	3,400,015	-	-	3,933,866	3,400,015	533,851
Human support services	6,759,631	6,041,025	-	-	6,759,631	6,041,025	718,606
Operations and infrastructure	1,531,347	1,338,065	-	-	1,531,347	1,338,065	193,282
Public transportation	447,069	458,346	-	-	447,069	458,346	(11,277)
Interest on long-term debt	367,790	424,627	-	-	367,790	424,627	(56,837)
Office of lottery and gaming	-	-	234,895	218,086	234,895	218,086	16,809
Unemployment compensation	-	-	39,994	1,497,798	39,994	1,497,798	(1,457,804)
Not-for-profit hospital corporation	-	-	142,883	150,034	142,883	150,034	(7,151)
Total expenses	17,794,487	15,678,289	417,772	1,865,918	18,212,259	17,544,207	668,052
Increase (decrease) in net position before transfers	1,019,130	917,952	130,593	(92,091)	1,149,723	825,861	323,862
Transfers in (out)	18,670	(43,679)	(18,670)	43,679	-	-	-
Change in net position	1,037,800	874,273	111,923	(48,412)	1,149,723	825,861	323,862
Net position - October 1	7,209,112	6,334,839	118,804	167,216	7,327,916	6,502,055	825,861
Net position - September 30	\$ 8,246,912	\$ 7,209,112	\$ 230,727	\$ 118,804	\$ 8,477,639	\$ 7,327,916	\$ 1,149,723

Note:

Refer to Note 1W - Reconciliation of Government-Wide and Fund Financial Statements, on page 91 for additional information on the differences between the full accrual basis of accounting and the modified accrual basis of accounting that the District used in this report.

Financial Analysis of the Government as a Whole

Revenues increased by \$991,914 while expenses increased by \$668,052 in fiscal year 2022 compared to the prior year.

General revenues, which are derived primarily from taxes and represented 56.05% of the District's total revenues in fiscal year 2022, increased by \$1,113,485, or 11.43%, over the prior fiscal year. The increase resulted primarily from higher sales and use tax, individual income tax, and franchise tax revenues during fiscal year 2022. As the District continued to recover from the pandemic, the city experienced increases in all tax categories, except property taxes, with the biggest growth being in sales and use tax and income and franchise tax revenues. Sales and use tax revenues grew as result of a strong retail revenue performance and a rapid rebound in the hospitality industry, primarily in hotel and restaurant tax collections. A robust job market in the District also helped retail revenue achieve steady growth over the last two years. Individual income taxes grew in large part by the extraordinary economic and stock market performance of fiscal year 2021 that resulted in historic high capital gains income tax payments in 2022. In addition, inflation positively impacted nominal wages while unemployment levels remained low contributing to greater tax withholding throughout the fiscal year. General revenues also increased in fiscal year 2022 as a result of a rise in franchise taxes for both corporations and unincorporated businesses. The increase in franchise tax revenues was driven by stronger corporate profits and a robust stock market performance during fiscal year 2021. The increase in general revenues was offset, however, by a reduction in property tax revenues in fiscal year 2022. The negative growth in real property tax collection was mainly due to a decline in assessed values for commercial properties, particularly office buildings valued above \$50 million as vacancy rates remained high due to the expansion of remote work. Deed tax revenues were higher in fiscal year 2022 compared to the prior year as a result of a few high-dollar real estate transactions and a strong residential market. This increase in deed tax revenues also led to the increase in the District's general revenues.

Program revenues, which accounted for 43.95% of the District's total revenues in fiscal year 2022, decreased by \$121,571, or 1.41%. Grants and contributions decreased as a result of the expiration of federal Coronavirus relief funding and financial resources provided under the ARPA late in fiscal year 2021. These funds were used to support the city's response to and recovery from the COVID-19 public health emergency.

The Coronavirus relief funding was used to support a number of District programs and activities including but not limited to: unemployment benefit payments, bridge initiatives and other emergency rental assistance, affordable housing for low-and moderate-income households, higher Medicaid provider payments, cash assistance and homeless services, education system's distance learning and reopening efforts, and increased SNAP benefits. Increased revenues from charges for services helped to offset the overall decline in Program revenues. Expansion of business activities in the District and an increased number of visitors to the city resulted in an increase in parking meter collections in fiscal year 2022. These factors led to an increase in charges for services when compared to the prior year.

The District's expenses grew by \$668,052 in fiscal year 2022 because of increases in expenses across most of the governmental activities functional areas. The most significant increases were reported in the areas of Human Support Services, Public Education System and Public Safety and Justice. However, the business-type activities expenses decreased in fiscal year 2022 mainly due to a substantial decrease in Unemployment Compensation Fund expenses and a relatively smaller decrease in Not-for-Profit Hospital Corporation expenses. These decreases were not sufficient to offset the increase in expenses of the Office of Lottery and Gaming.

Human Support Services expenses increased in part due to an increase in the average enrollment in the Medicaid program by approximately 15,000 beneficiaries in fiscal year 2022. Furthermore, the inflation rate in fiscal year 2022 rose higher than it was in fiscal year 2021 and, consequently, Medicaid rates and related expenditures also increased. Expenses also increased from the prior year due to increased spending on Temporary Assistance for Needy Families (TANF) support in the form of cash and resources for domestic violence services and an increase in applications for Supplemental Nutrition Assistance Program (SNAP).

Public Safety and Justice expenses increased mainly due to an increase in approved COVID-19 grant projects funded by the Federal Emergency Management Agency (FEMA). This increased funding was used to support the management, control and reduction of immediate threats to public health and safety; emergency medical care; security and law enforcement; communications of general health and safety information to the public; and search and rescue operations to locate and recover members of the population requiring assistance. Expenses for activities associated with community policing and programming and growing participation in the law school internship program contributed to the increased expenses compared to the prior fiscal year.

Public education system expenses increased mainly due to the move from mostly virtual learning to in-person learning, and the accompanying costs associated with that decision. A primary driver of the increased costs was attributed to expenses for contractual services for in-school health providers, such as nurses, contact tracers and patient care technicians. Higher expenses were also due to increased nutrition and programming claims as activity began to return to normal levels during fiscal year 2022. Increased spending also occurred on the Teachers Incentive Fund grant and on Head Start programs, as well as the Technology Modernization Initiative by DC Public Schools and a data infrastructure project coordinated by the Office of the State Superintendent of Education (OSSE). Increased spending was also attributed to the DC Future Program which provides tuition assistance to District college students towards completing their degrees; the Charter Schools Reopening Facilities Grant for facilities-related expenses that schools incurred over the year to create safe learning spaces as a result of the pandemic; and the Positive Case Response and Clinical Support Grant which supports schools in their response to positive cases of COVID-19 and supports the provision of clinical assessment and services for students with symptoms.

The District's combined net position (governmental and business-type activities) increased by \$1,149,723, or 15.69%, to \$8,477,639 in fiscal year 2022 from \$7,327,916 in fiscal year 2021. Most of this increase was attributed to governmental activities, even though the net position for business-type activities increased by 94.21% due to a significant decrease in unemployment compensation expenses in fiscal year 2022. Specifically, the overall change in net position was impacted by a higher rate of increase in total revenues over total expenses mainly due to higher revenues from taxes as the District economy recovers from the effects of the pandemic.

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 increased by \$87,104, or 3.60%, in fiscal year 2022. The most significant increase in restricted net position was due to the increases in amounts set aside for payments of benefits in the unemployment compensation and Universal Paid Leave programs. The amount set aside for unemployment compensation and Universal Paid Leave benefit payments increased due to excess employer contributions over benefit payments expenditures in fiscal year 2022. The increase was offset by a decrease in the amount set aside for expenses related to the pension and OPEB funds as a result of losses on the investment of the funds resources in fiscal year 2022 caused by the decline in stock market performance.

Unrestricted net position increased by \$1,882,161 to \$2,782,707 in fiscal year 2022. The increase is mostly due to the higher revenues from sales and use, and income and franchise taxes.

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 2022 and 2021, the Lottery transferred \$40,670 and \$48,150 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)

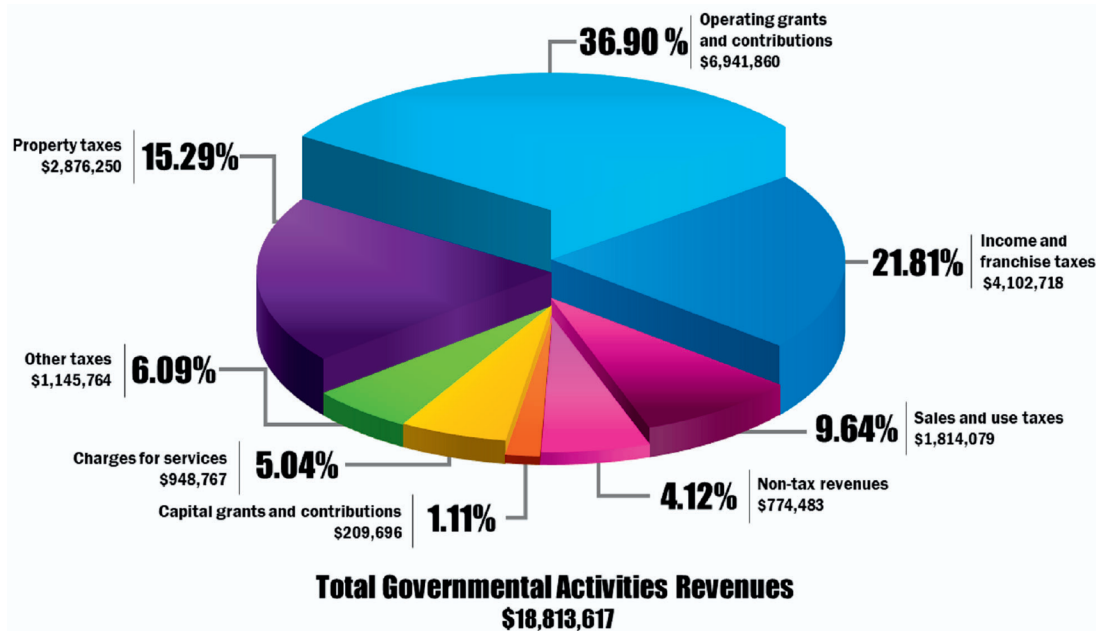
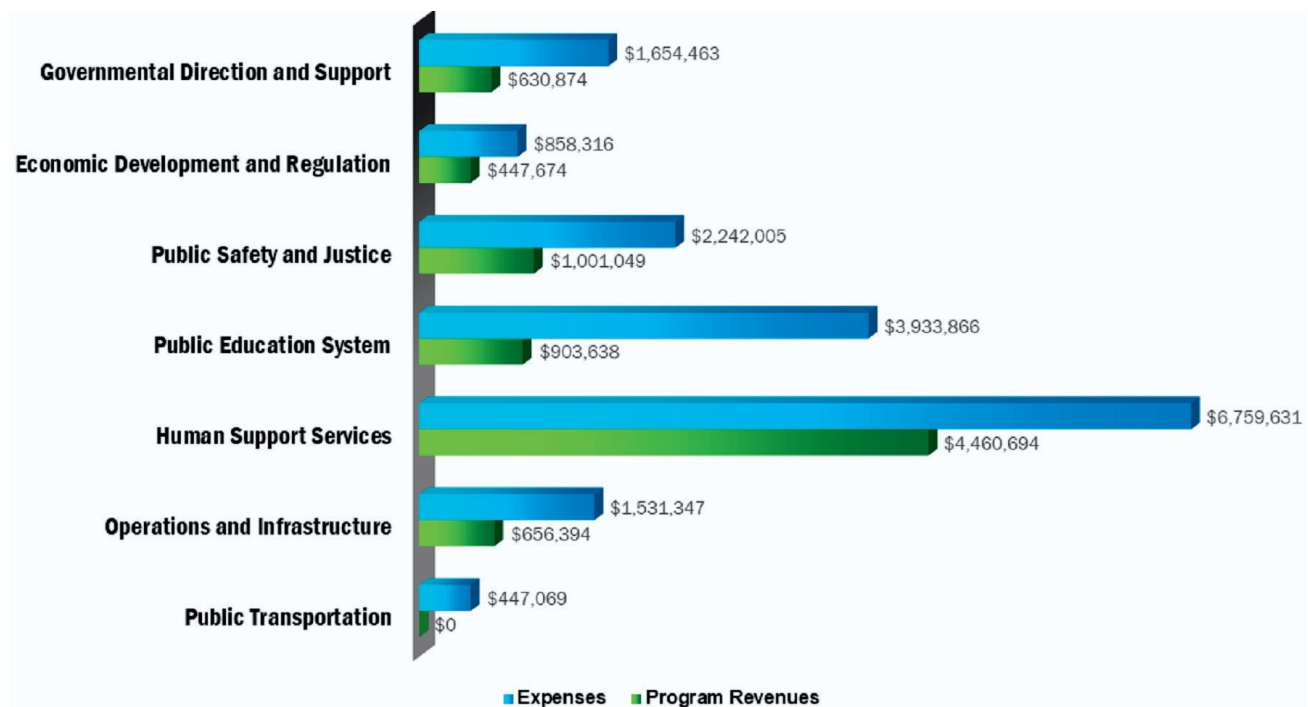


Chart MDA-2 graphically displays both expenses and program revenues of the governmental activities for fiscal year 2022. Functional areas of the governmental activities are Governmental Direction and Support, Economic Development and Regulation, Public Safety and Justice, Public Education System, Human Support Services, Operations and Infrastructure, and Public Transportation.

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



Changes in Net Position

Total net position of governmental activities was \$8,246,912 in fiscal year 2022, which was \$1,037,800, or 14.40%, higher than the amount in the prior year. This increase resulted from several factors, including higher individual income, franchise, and sales and use tax revenues; and an excess of revenues collected over benefit payments for the Universal Paid Leave program in fiscal year 2022.

Net position of business-type activities increased by \$111,923, or 94.21%, between fiscal year 2022 and 2021. The overall increase was mainly attributed to an increase in net position of \$122,864 from the Unemployment Compensation Fund. New unemployment claims in the District decreased considerably in fiscal year 2022. The decrease was primarily due to fewer claims filed and the expiration of expanded unemployment programs that existed as a result of the pandemic.

The Office of Lottery and Gaming contributed marginally to the overall increase in net position. Prizes paid and other related expenses, which represented 83.79% of the Lottery's operating expenses, increased by \$21,490 or 12.28%. The Lottery's change in net position was \$59 for fiscal year 2022, after transferring \$40,670 to the General Fund of the District.

The overall increase in net position of the business-type activities was offset by a decrease in net position attributed to the Not-for-Profit Hospital Corporation. Although there was an increase in operating revenues compared to the prior year, driven mainly by an increase in charges for services by \$16,161, or 17.37%, expenses exceeded revenues and transfers by \$11,000. In fiscal year 2022, the General Fund of the District transferred \$22,000 to the Hospital. The vast majority of the Hospital's patient service revenue, which comprises 51.38% of its total operating revenues for fiscal year 2022, is received from governmental payors (Medicare and Medicaid). Patient service revenues, net of provision for bad debt, remained relatively stable from the prior year. Although buoyed by an increase of \$15,890, or 99.59%, in funding received for the treatment of indigent patients, operating revenues decreased by 4.14% due to a reduction in operating grants and contributions.

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 184 and 185.

Governmental Funds

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 58 and 59, provide information about these funds.

Fund Balances

The governmental funds reported a combined fund balance of \$5,866,712 in fiscal year 2022 and \$3,844,259 in fiscal year 2021, which represents an increase of \$2,022,453, or 52.61%, from the prior year.

Table MDA-4 presents the components of the combined fund balances of the governmental funds.

**Table MDA-4
Comparison of Fiscal Year 2022 and FY 2021 Fund Balances: Governmental Funds (\$000s)**

Governmental funds	2022	2021	Variance	Variance %
General	\$ 4,892,305	\$ 3,598,706	\$ 1,293,599	35.95%
Federal and private resources	(333,650)	(129,843)	(203,807)	(156.96)
Housing production trust	403,002	266,441	136,561	51.25
General capital improvements	153,058	(598,339)	751,397	125.58
Nonmajor governmental funds	751,997	707,294	44,703	6.32
Total fund balances	\$ 5,866,712	\$ 3,844,259	\$ 2,022,453	52.61

The negative fund balance in the Federal and Private Resources Fund increased by \$203,807, or 156.96%, between fiscal years 2022 and 2021. The increase in the deficit was mainly caused by reimbursements for eligible expenditures not being received within the time frame for inclusion in the financial statements for fiscal year 2022. Those amounts are included in the deferred inflows of resources - unavailable revenues in this fund. As a result, the balance in the deferred inflows of resources - unavailable revenues related to the grants increased by \$151,496, or 32.26% compared to the prior year.

Although fund balance decreased, revenue of the Federal and Private Resources Fund increased by \$1,020,977 or 17.49% over the one-year period while expenditures increased by \$703,318 or 12.26%. The increase in revenue was mainly due to increases in federal contributions and operating grants totaling \$675,570 and \$306,951, respectively, which outpaced the growth in expenditures, resulting in excess revenue over expenditures in fiscal year 2022. However, the fund reimbursed the General Fund in the amount of \$623,074 for ARPA revenue loss replacement and for eligible FEMA Public Assistance related costs that were covered by the General Fund in fiscal year 2021.

Expenditures in Human Support Services, which account for 69.16% of the total expenditures in the Federal and Private Resources Fund, increased by \$435,982 or 10.85%. This was due to an increase in the average enrollment of Medicaid program participants which saw an increase of 15,000 beneficiaries during fiscal year 2022, up from 230,000 beneficiaries from the prior year. Along with the increased number of participants, Medicaid rates increased from the prior year. Medicaid rates are tied to the living wage which is associated with the consumer price index. Higher inflation rates in fiscal year 2022 led to increased Medicaid rates and consequently, higher expenditures. Another factor that contributed to the increased

expenditures was an increase in services related to homelessness and TANF cash for District residents impacted by the COVID-19 pandemic.

Fund balance in the Housing Production Trust Fund increased by \$136,561, or 51.25%, between fiscal years 2022 and 2021. This increase was primarily due to a transfer from the General Fund to the Housing Production Trust Fund to fund housing projects and services.

The second largest increase in the governmental fund balance was in the General Capital Improvements Fund, which reported a positive fund balance of \$153,058 as of September 30, 2022. This significant increase of \$751,397, or 125.58%, from the prior year's negative fund balance of \$598,339, was a consequence of the District issuing new General Obligation and Income Tax Secured bonds in fiscal year 2022, and therefore, generating sufficient revenues to cover expenditures for this fund.

Fund balance in the Nonmajor Governmental Funds increased by \$44,703 or 6.32% between fiscal years 2022 and 2021. This increase was mainly attributed to revenues exceeding benefit payments in the Universal Paid Leave program, offset by decreases in the Tax Increment Financing Program and Highway Trust Fund. The decrease in fund balance for the Tax Increment Financing Program was due to higher prepayments made for debt services in fiscal year 2022. The decrease in fund balance for the Highway Trust Fund was caused by expenditures exceeding the motor fuel tax revenues dedicated for the fund.

The most significant increase in fund balance within the governmental funds was in the General Fund. Fund balance in the General Fund, which is the primary operating fund of the District, increased by \$1,293,599, or 35.95% over the one-year period. A detailed discussion of the District's General Fund follows.

Revenues

General Fund revenues totaled \$11,126,770, an increase of \$1,321,304, or 13.48%, in fiscal year 2022. **Table MDA-5** presents the most significant variances in General Fund revenues.

Table MDA-5
Changes in Major General Fund Revenues (\$000s)

Revenue category	2022	2021	Variance	Variance %
Property taxes	\$ 2,952,304	\$ 3,048,594	\$ (96,290)	(3.16)%
Sales and use taxes	1,769,133	1,293,992	475,141	36.72
Income and franchise taxes	4,108,313	3,506,271	602,042	17.17
Other taxes	642,691	508,219	134,472	26.46
Total	\$ 9,472,441	\$ 8,357,076	\$ 1,115,365	13.35

Property Taxes

Real property tax revenues decreased in fiscal year 2022 compared to fiscal year 2021 because of negative growth in real property tax collections in fiscal year 2022, mainly due to a decline in the assessed values of commercial properties. The assessed values assigned to office buildings, especially those assessed above \$50 million (not in thousands), decreased as vacancy rates, which impact property values, remain high due to the expansion of remote work.

Sales and Use Taxes

The District reported a significant increase in sales and use taxes in fiscal year 2022. Steady revenue performance of retail businesses and strong rebound in hotel and restaurants resulted in increased general sales taxes collections. Strong job market and historic high inflation have helped retail revenue achieve steady growth in the last two years.

Income and Franchise Taxes

The District experienced double digit percentage growth in income taxes in fiscal year 2022 driven in large part by the extraordinary economic and stock market performance of fiscal year 2021 that resulted in historic high capital gains income tax final return payments in fiscal year 2022. In addition, inflation positively impacted nominal wages and unemployment levels remained low contributing to strong withholding tax collection throughout the fiscal year.

Other Taxes

Revenues from other taxes increased in fiscal year 2022 compared to fiscal year 2021 due to growth in deed taxes, which includes deed recordation, transfer taxes, and economic interest taxes, driven by certain high dollar real estate transactions. Deed taxes of properties valued above \$50 million (not in thousands), which primarily consist of large office buildings, and strong residential market buildings are the main contributors for the increase.

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 2022, the District dedicated a total of \$783,817 in tax revenues, which was 25.96% higher compared to the prior year, to fund the projects presented in **Table MDA-6**. The highest increase were reported in revenues from taxes

dedicated to the Washington Convention and Sports Authority. The dedicated sales and use tax revenues significantly increased due to a strong rebound in hotel and restaurant tax collections. During fiscal year 2022, 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, increased by \$67,349 or 122.60%, compared to fiscal year 2021.

Table MDA-6
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	\$ -	\$ 122,281	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 122,281
Department of General Services	-	-	-	361	361	-	-	722
Walter Reed Development Fund	853	117	-	-	-	-	-	970
Healthcare programs	-	2,229	-	-	-	-	100,929	103,158
Highway Trust Fund	-	-	-	-	-	28,290	-	28,290
WMATA	-	242,672	-	-	-	-	-	242,672
Healthy schools	-	5,690	-	-	-	-	-	5,690
Alcoholic Beverage Regulation Administration	-	1,170	-	-	-	-	-	1,170
Arts and Humanities	-	41,688	-	-	-	-	-	41,688
Sports Wagering - DBH Gambling	-	-	200	-	-	-	-	200
Addiction Treatment	-	-	-	-	-	-	-	-
HPTF debt service	-	-	-	3,771	-	-	-	3,771
Total general fund	853	415,847	200	4,132	361	28,290	100,929	550,612
Special revenue funds								
Tax increment financing program	19,796	17,963	-	-	-	-	-	37,759
PILOT special revenue	21,619	14,555	-	-	-	-	-	36,174
Baseball project	-	12,429	51,350	-	-	-	-	63,779
Housing Production Trust	-	-	-	53,763	40,672	-	1,058	95,493
Total special revenue funds	41,415	44,947	51,350	53,763	40,672	-	1,058	233,205
Total dedicated taxes	\$ 42,268	\$ 460,794	\$ 51,550	\$ 57,895	\$ 41,033	\$ 28,290	\$ 101,987	\$ 783,817

Expenditures

The District's General Fund expenditures, excluding debt service, increased by \$1,840,587 from the previous year.

Table MDA-7 presents General Fund expenditure variances by function.

Table MDA-7
General Fund Expenditure Variances by Function (\$000s)

Function	2022	2021	Variance	Variance %
Governmental direction and support	\$ 2,427,677	\$ 1,125,114	\$ 1,302,563	115.77%
Economic development and regulation	436,343	321,227	115,116	35.84
Public safety and justice	1,358,284	1,329,700	28,584	2.15
Public education system	2,834,576	2,722,845	111,731	4.10
Human support services	2,165,073	1,978,088	186,985	9.45
Operations and infrastructure	685,534	578,649	106,885	18.47
Public transportation	447,069	458,346	(11,277)	(2.46)
Total functional expenditures	\$ 10,354,556	\$ 8,513,969	\$ 1,840,587	21.62

Explanations for variances between fiscal years 2022 and 2021 in General Fund functional expenditures are presented below:

Governmental Direction and Support

Governmental Direction and Support expenditures significantly increased in fiscal year 2022 as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, in fiscal year 2022. The Department of General Services centrally administers the majority of property lease contracts of the District and, as a result, recorded an increase of \$1,160,566 in non-budgetary lease expenditures that represents the present value of all future lease payments. Purchases of materials needed to safely reopen schools and businesses contributed to the increased expenditures in fiscal year 2022 as well. Further, the surge in COVID-19 variants led to additional spending for emergency supplies and services at COVID-19 testing centers which were set up within various wards of the District. In preparation for the General Election that was held in November 2022, the District incurred additional expenditures in fiscal year 2022 to facilitate fair elections in the District. The Office of Campaign Finance (OCF) administers and enforces the Campaign Finance Laws of the District, which include the provisions of the Fair Elections Act. The Fair Elections Program is a voluntary public financing program for local political campaigns in the District. This program made available a combination of matching funds and lump sum base payments to candidates. Increases in personal service expenditures were driven by increased staffing levels, and salary and cost of living adjustments across all programs. Additional contributing factors for the increase in the Governmental Direction and Support expenditures included:

- Higher energy costs (electricity, natural gas, steam, etc.);
- Increased expenditures resulting from subsidies to support the Cure the Street Violence Interruption Program for the Office of the Attorney General;

- Increased expenditures for contractual costs related to warehouse services and other services related to the procurement automated support system (PASS);
- Increased fixed costs primarily in rent and security services;
- Increased supplies for building maintenance (belts, filters, plumbing, electrical, etc.);
- Higher telecommunication expenditures due to the increase in wireless services for remote work, data bandwidth expansions and upgrades; and
- Increased expenditures for software and hardware licenses and maintenance for IT Development and Operations, Citywide Email and Collaborations, and Security Operations.

Economic Development and Regulation

The increase in expenditures in Economic Development and Regulation resulted mostly from the use of increased funding under American Rescue Plan Act (ARPA). In fiscal year 2022, certain ARPA funding sources became available, and the majority was utilized to offset increased expenditures in Business Development for food access programs, Destination DC, local job creation programs and the cost of hosting events in the District. Spending also rose to support local initiatives, such as Streets for People, and the Woodley Park and Cleveland Park design guidelines being conducted through the Office of Planning. Increased spending for the employer-assisted housing program and the Preservation Fund for the Small Buildings program also accounted for the increase in the Economic Development and Regulation expenditures. Other factors which contributed to this increase were the:

- Issuance of a new loan for the innovation finance program and the expansion of banking programs;
- Additional spending for grants to the District Arts communities; and
- Additional full-time equivalents, cost-of-living adjustments, and approved bonus payments.

Public Safety and Justice

Public Safety and Justice expenditures increased slightly during fiscal year 2022 primarily for premium pay for essential workers, those who have and will bear the greatest health risks because of their service in critical sectors, like Metropolitan Police Department and Fire and Emergency Medical Services (FEMS) Department. Other increases in Public Safety and Justice expenditures resulted from a new facility lease for the Emergency Operations Center (EOC) located on Half Street, Southeast to accommodate expansion, technology, and strategic location. The terms of the lease require higher amounts to be paid for the first two years, and then a reduction in lease payments. In addition, increased expenditures resulted from the associated community programming and events under Justice Grants and Victim Services in fiscal year 2022. Additional full-time equivalents, cost-of-living adjustments and bonus payments also contributed to the overall increase in Public Safety and Justice expenditures.

Public Education System

Public Education System expenditures rose in fiscal year 2022 primarily because of an increase in the Uniform Per Student Funding Formula rate, increased student enrollment, and the fact that District of Columbia Public Schools (DCPS) and District of Columbia Public Charter Schools moved from primarily remote learning to primarily in-person learning during fiscal year 2022. Many services that were suspended due to COVID-19 were largely operating as they would in a normal pre-pandemic fiscal year. Increased spending for food services and afterschool programs further contributed to the increase. In addition, spending on the COVID-19 response, increased subsidy payments for early learning within the Licensing and Compliance Unit for childcare providers, higher spending in Recreation Services and Programming, increased spending in Transitional Employment, District of Columbia Career Connections, Paid Family Leave Administration, Talent and Client Services, and Poverty Commission programs, as well as higher personal service expenditures for cost-of-living adjustments and additional compensation payments, also contributed to the overall increase in Public Education System expenditures.

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 but not limited to Medicaid,

Behavioral Health Services, Temporary Assistance for Needy Families, the Supplemental Nutrition Assistance Program (SNAP), Adoption and Foster Care services, care for youth in pre- and post-court adjudication, and mental health services provided by Saint Elizabeths Hospital and other community-based providers. The increase in expenditures in Human Support Services was primarily due to higher Medicaid provider payments caused by an increase in the average enrollment of participants from fiscal year 2021 to fiscal year 2022. Average enrollment in the Medicaid program grew from approximately 230,000 beneficiaries in fiscal year 2021 to approximately 245,000 beneficiaries in fiscal year 2022. Additionally, enrollment in the locally funded Alliance program, which provides medical assistance for low-income District residents ineligible for Medicaid, grew by 19%. Moreover, the inflation rate in fiscal year 2022 rose higher than it was in fiscal year 2021 and, consequently, Medicaid rates and related expenditures also increased. Higher spending for the Homeless Assistance Program, helping homeless families, individuals, and youth move into transitional and permanent housing; and increased Temporary Assistance for Needy Families (TANF) support in the form of cash and resources for domestic violence services and an increase in applications for SNAP also contributed to the increase in expenditures in Human Support Services. Additional factors contributing to increased expenditures were increases in the local Medicaid match for Medicaid-eligible District residents receiving mental health and substance use disorder services, school-based behavioral health services, and housing development; the securing of protective security services; investments in the enterprise-wide security operation; and planning capital projects.

Operations and Infrastructure

Operations and Infrastructure expenditures increased during fiscal year 2022 due to increased spending for fuel contracts for the Department of Public Works. Higher costs associated with hauling, disposal, and recycling of District waste, and cleaning public spaces throughout the District also contributed to the increase. Other factors contributing to the increase included additional personal spending for field operations and traffic safety and standards for school crossing guards and traffic control officers, as well as non-personal spending for Transportation Management and Curbside Management under the Parking Ground Transportation Division. Increased spending was also driven by the Department of Energy and Environment (DOEE) towards enhancing the illegal dumping enforcement program known as "Dump Busters" using funding received from ARPA. The Dump Busters program was created to help reduce the prevalence of illegally dumped trash and debris in public and private spaces throughout the District. In addition, DOEE increased spending on a Kingman Rangers Program for underemployed young adults that train, employ, and provide wraparound services for certain full-time and seasonal Rangers to conduct

environmental restoration, educate District students, serve as interpretive hosts, and maintain amenities at Kingman and Heritage Islands. In addition, increased spending occurred in fiscal year 2022 for the DC School Connect program, a relatively new initiative that provides transportation services to a select number of District public and charter school students in safe passage zones in Wards 7 and 8. This program was ramped up in fiscal year 2022 with more participating taxi and limousine drivers, and consequently, higher expenditures for waivers for registration and other fees paid by participants.

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 2022 were slightly lower than in previous years due to shortfall in revenues and decrease in service levels, which contributed to the overall decrease in Public Transportation expenditures during fiscal year 2022.

Capital Expenditures and Financing

During fiscal year 2022, the District spent \$1,603,224 on general capital improvements which exceeded the general capital improvements revenues of \$211,246 by \$1,391,978. This deficiency was partially financed with a net total of \$2,143,375 from bond proceeds and other financing sources. The net change in fund balance was an increase of \$751,397, which resulted in a cumulative positive fund balance of \$153,058.

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 Plan. 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 2022, the Housing Production Trust Fund (HPTF) long-term loans receivable balance was \$1,161,151, an increase of \$105,483 or 9.99% 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 for 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, 2022, the net balance was \$63,802.

Table MDA-8 presents the Housing Production Trust Fund long-term loan receivable balances and the corresponding allowance for doubtful accounts for fiscal years 2018 through 2022.

**Table MDA-8
Housing Production Trust Fund Long-Term Loan Receivable Balances (\$000s)**

	2018	2019	2020	2021	2022
HPTF long-term loans receivable	\$ 722,295	\$ 850,280	\$ 1,054,156	\$ 1,055,668	\$ 1,161,151
Less: allowance for doubtful accounts	624,559	756,321	954,974	964,025	1,097,349
Net long-term loans receivable (other long-term assets)	\$ 97,736	\$ 93,959	\$ 99,182	\$ 91,643	\$ 63,802

Proprietary Funds

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

The total assets of the Lottery decreased by \$1,848, or 6.95%, compared to the prior year, primarily due to the amortization of right-to-use leased assets as a result of implementing GASB Statement No. 87 in fiscal year 2022.

During fiscal year 2022, the Unemployment Compensation Fund's total assets increased by \$60,414, or 36.74%, primarily as a result of employer tax collections and governmental contributions exceeding the unemployment benefit payments. Cash

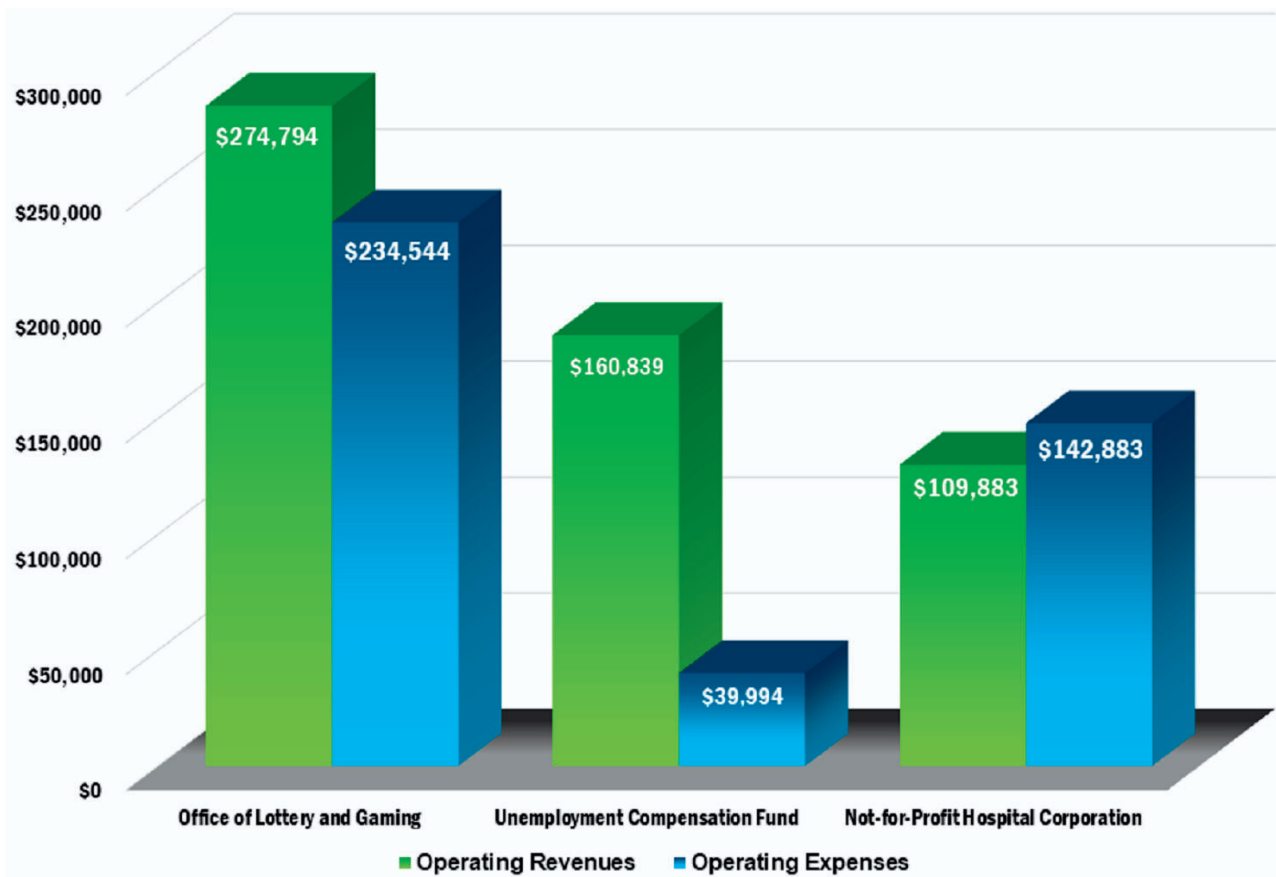
held with U.S. Treasury, which represented 77.95% of the Fund's total assets, increased by \$125,234 or 250.33% from the prior year. This increase is primarily due to cash receipts from employer taxes and government contributions significantly exceeding the unemployment benefit payments.

The total assets of the Not-for-Profit Hospital Corporation decreased by \$19,953, or 15.79%, primarily as a result of a decrease in grants and subsidies from the District.

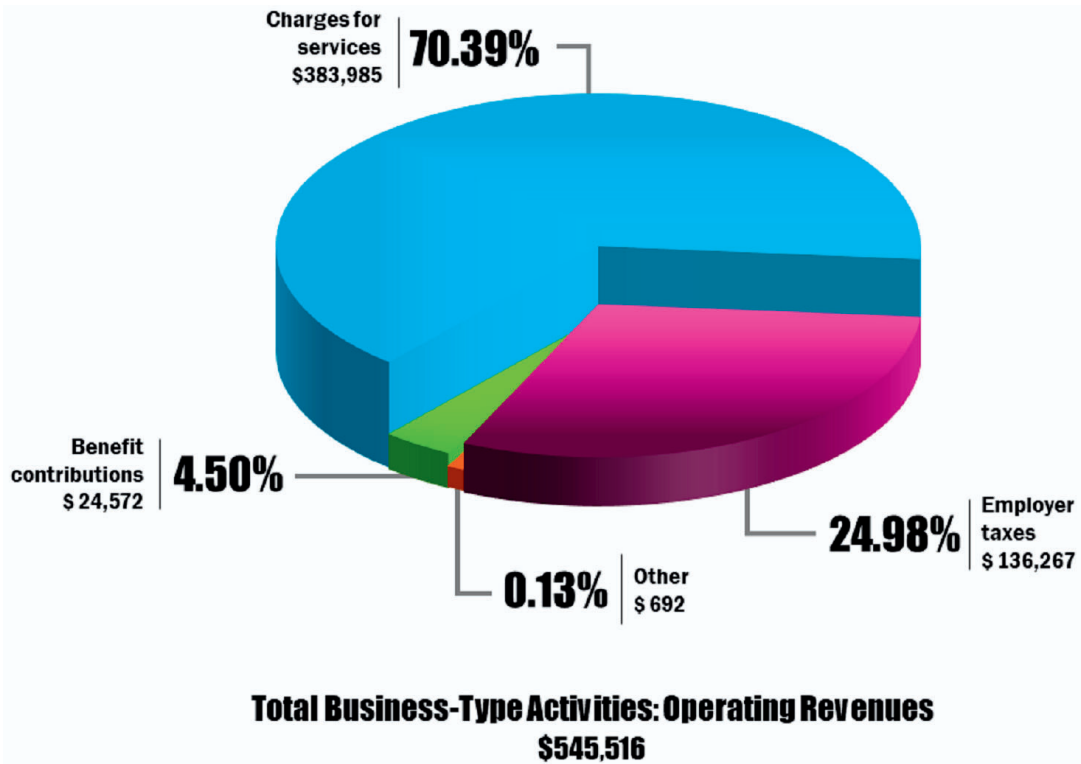
Total net position of the District's proprietary funds increased by \$111,923, or 94.21%, over the prior year. Exhibits 3-a, 3-b, and 3-c on pages 62 through 64 present the financial statements of the proprietary funds.

Charts MDA-3 and MDA-4 graphically present comparisons of revenues and expenses of District proprietary funds, based on information contained in the Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds, shown on page 63.

**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 Fiduciary 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 has the fiduciary responsibility for ensuring these assets are used for their intended purposes. 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 65 and

66, respectively. Exhibits C-1 and C-2, presented on pages 188 and 189, respectively, provide additional information related to the fiduciary activities. 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 operations.

Table MDA-9 presents the net position restricted for Pension and Other Employee Benefit Trust Funds.

**Table MDA-9
Net Position Restricted for Pension and Other Employee Benefit Trust Funds (\$000s)**

Pension and Other Employee Benefit Trust Funds	2022	2021, as restated	Variance	Variance %
Police officers and fire fighters pension	\$ 6,900,445	\$ 7,991,135	\$ (1,090,690)	(13.65)%
Teachers pension	2,572,925	2,944,567	(371,642)	(12.62)
Other postemployment benefits	1,650,287	2,025,062	(374,775)	(18.51)
401(a) Defined Contribution Plan	1,242,464	1,484,608	(242,144)	(16.31)
457(b) Deferred Compensation Plan	1,118,750	1,245,773	(127,023)	(10.20)
403(b) Tax-Sheltered Annuity Plan	318,887	268,283	50,604	18.86
Total	\$ 13,803,758	\$ 15,959,428	\$ (2,155,670)	(13.51)

Net position of the fiduciary funds decreased mainly because of weak market conditions and below average stock market performance in fiscal year 2022.

A Private-Purpose Trust Fund is used to report any trust arrangement not reported in the Pension or Other Employee Benefit 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; or (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 owner.

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 67 and 68, respectively, present the component units' financial information for fiscal year 2022. Information presented in these exhibits was extracted from each entity's separately issued financial statements.

During the fiscal year ended September 30, 2022, Washington Convention and Sports Authority (Authority) was subjected to a ransomware cyber attack, which resulted in a significant amount of financial data of the Authority being encrypted and made unavailable for their access. As a result, the independent auditors of the Authority were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Authority's financial statements as of and for the year ended September 30, 2022.

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 (DC 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, 2022, the District (including its business-type activities) had \$16,771,537 in long-term debt outstanding, of which \$12,419,623, or 74.05%, was in the form of bonds and notes. Of the outstanding bonds, \$6,002,310, or 48.33% were General Obligation Bonds, and \$5,216,810, or 42.00% were Income Tax Secured Revenue Bonds.

Table MDA-10 presents the outstanding bonds and notes of the District as of September 30, 2022.

Table MDA-10
Outstanding Bonds and Notes as of September 30, 2022 (\$000s)

Type of bonds and notes	2022	2021	Variance	Variance %
General obligation bonds - publicly offered	\$ 5,169,010	\$ 4,683,745	\$ 485,265	10.36%
General obligation bonds - direct placements	833,300	519,005	314,295	60.56
Income tax secured revenue bonds	5,216,810	4,954,180	262,630	5.30
Other bonds:				
Qualified zone academy bonds (QZAB) - direct placements	829	1,105	(276)	(24.98)
Tobacco settlement asset-backed bonds	458,029	487,644	(29,615)	(6.07)
Tax increment financing bonds - publicly offered	88,088	105,803	(17,715)	(16.74)
Tax increment financing bonds - direct placements	18,778	17,400	1,378	7.92
Ballpark revenue bonds	179,205	183,200	(3,995)	(2.18)
Federal highway grant anticipation revenue bonds (GARVEE)	266,505	280,675	(14,170)	(5.05)
Deed tax revenue bonds (housing production trust fund program)	32,795	35,215	(2,420)	(6.87)
PILOT revenue bonds - publicly offered	132,060	136,765	(4,705)	(3.44)
PILOT revenue bonds and notes - direct placements	24,214	37,431	(13,217)	(35.31)
Total outstanding bonds and notes - governmental activities	\$ 12,419,623	\$ 11,442,168	\$ 977,455	8.54

During fiscal year 2022, the District issued \$1,348,430 in General Obligation Bonds and \$1,423,495 in Income Tax Secured Revenue Bonds. Those debt issuances are as follows:

- In November 2021, the District issued \$170,610 Series 2021A and \$174,675 Series 2021B Multimodal GO Refunding Bonds. The Series 2021A and Series 2021B Bonds were issued to current refund the 2016B and Series 2016C Multimodal GO Bonds. The issuance established a new mandatory tender date for the refunded Series 2016B and Series 2016C Multimodal GO Bonds, extending the date from December 2021 to June 2027.
- In November 2021, the District issued \$350,000 Series 2021C Multimodal GO Bonds and \$401,715 Series 2021D GO Bonds. The proceeds of both bonds were used to finance capital project expenditures under the capital improvements plan of the District and pay the costs and expenses of issuing the Bonds. In addition, the proceeds of the 2021D GO Bonds were also used to refinance GO Bond Anticipation Notes. Interest rates on the Series 2021C Bonds are variable, based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index plus spread. Interest rates on the Series 2021D Bonds range from 4.00% to 5.00%.
- In November 2021, the District issued \$251,430 Series 2021E GO Refunding Bonds. The Series 2021E Bonds current refunded all or a portion of the outstanding Income Tax Secured Revenue Bonds, Series 2011A, Series 2011F, Series 2011G, Series 2012A, Series 2012C, and Series 2012D of the District, and paid the costs and expenses of issuing and delivering the Series 2021E Bonds.
- In July 2022, the District issued \$648,860 Series 2022A Tax-Exempt Income Tax Secured Revenue Bonds and \$139,305 Series 2022B Taxable Income Tax Secured Revenue Bonds. The proceeds of the bonds were used to finance capital project expenditures under the capital improvements plan of the District and pay the costs and expenses of issuing the bonds. Interest rates on the bonds range from 3.42% to 5.50%.
- In September 2022, the District issued \$635,330 Series 2022C Tax-Exempt Income Tax Secured Revenue Refunding Bonds. Proceeds were used to advance refund the Series 2012A, 2012B, 2012C and 2012D Income Tax Secured Revenue Bonds and pay the costs of issuance.

For more information on the long-term debt activity of the District, refer to Note 7, Long-Term Liabilities, on pages 128 through 142.

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, bridges, and right-to-use leased assets. In fiscal year 2022, total net capital assets (capital assets less accumulated depreciation and amortization) increased by \$648,432, or 3.86%, over the prior year. Total capital assets increased because of the recognition of right-to-use leased assets and because the District invested resources in the construction of new assets and the rehabilitation of existing infrastructure, such as roads, streets, and

bridges. The implementation of GASB Statement No. 87 in fiscal year 2022 caused the addition of right-to-use leased assets to the capital assets, contributing to the increase in net capital assets.

As of September 30, 2022, net capital assets totaled \$17,462,480. Net capital assets of the governmental activities totaled \$17,410,338 and net capital assets of the business-type activities totaled \$52,142. The governmental activities depreciation and amortization charges for fiscal year 2022 totaled \$675,923 compared to the prior year's amount of \$516,510. The business-type activities depreciation and amortization charges for fiscal year 2022 totaled \$15,684 compared to the prior year's amount of \$14,871.

Table MDA-11 presents information on the District's net capital assets by class as of September 30, 2022.

Table MDA-11
Net Capital Assets by Asset Class as of September 30, 2022 (\$000s)

Asset class	Governmental Activities		Business-type Activities		Totals	
	2022	2021, as restated	2022	2021, as restated	2022	2021, as restated
Land	\$ 966,846	\$ 1,028,470	\$ 8,100	\$ 8,100	\$ 974,946	\$ 1,036,570
Buildings	8,660,741	8,480,882	35,621	41,640	8,696,362	8,522,522
Infrastructure	4,468,913	4,342,701	-	-	4,468,913	4,342,701
Right-to-use leased buildings	1,053,207	785,212	-	-	1,053,207	785,212
Right-to-use leased equipment	13,401	8,204	2,655	3,983	16,056	12,187
Equipment	628,559	449,744	5,766	10,939	634,325	460,683
Construction in progress	1,618,671	1,652,242	-	1,931	1,618,671	1,654,173
Total net capital assets	\$ 17,410,338	\$ 16,747,455	\$ 52,142	\$ 66,593	\$ 17,462,480	\$ 16,814,048

Note:

Additional information on the District's capital assets is presented in Note 5, Capital Assets, on pages 117 through 121.

REPORTING THE DISTRICT BUDGET

Overview

DC 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-12** presents variances between revised budget amounts and actual expenditures for the fiscal year ended September 30, 2022.

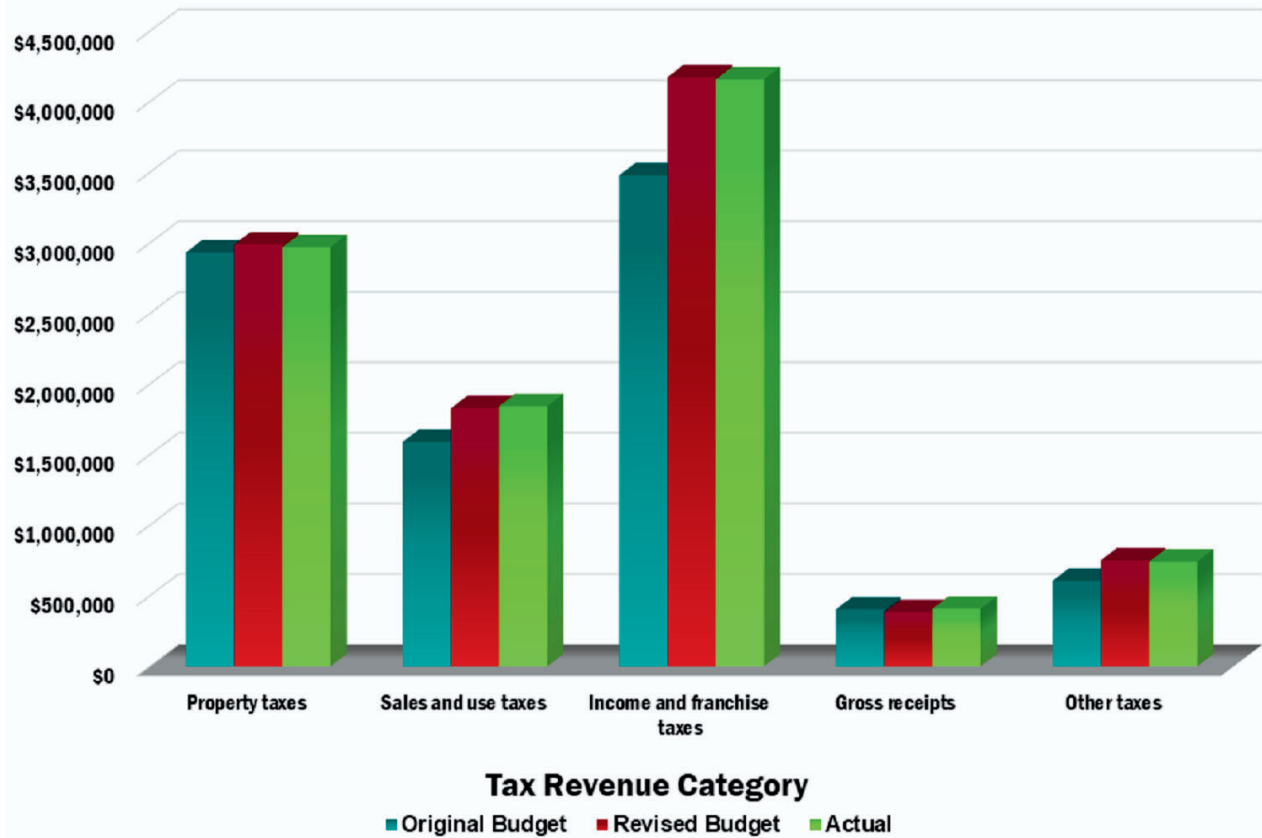
Table MDA-12
Schedule of General Fund Budgetary Basis Revenues and Expenditures (\$000s)

	Original Budget	Revised Budget	Actual	Variance (Actual to Revised Budget)
Revenues and other sources				
Taxes	\$ 8,600,031	\$ 9,697,717	\$ 9,767,811	\$ 70,094
Licenses and permits	131,317	136,330	135,008	(1,322)
Fines and forfeitures	138,654	158,480	161,321	2,841
Charges for services	63,894	77,262	78,407	1,145
Miscellaneous	122,440	170,643	249,429	78,786
Other sources	733,443	671,475	669,671	(1,804)
Bond proceeds	10,000	10,000	4,009	(5,991)
Fund balance released from restrictions	224,767	362,432	362,432	-
Interfund transfer from office of lottery and gaming	51,373	37,899	40,670	2,771
Interfund transfer - others	641,021	799,345	870,204	70,859
Total revenues and other sources	10,716,940	12,121,583	12,338,962	217,379
Expenditures and other uses				
Governmental direction and support	962,418	1,150,560	1,121,938	28,622
Economic development and regulation	491,948	650,932	588,717	62,215
Public safety and justice	1,361,105	1,370,494	1,358,055	12,439
Public education system	2,906,403	2,897,588	2,836,418	61,170
Human support services	2,226,568	2,294,297	2,162,304	131,993
Operations and infrastructure	1,140,928	1,132,967	1,093,022	39,945
Repayment of bonds and interest	864,055	826,169	825,644	525
Other expenditures and uses	755,642	868,354	715,308	153,046
Total expenditures and other uses	10,709,067	11,191,361	10,701,406	489,955
Excess of revenues and other sources over expenditures and other uses - budgetary basis	\$ 7,873	\$ 930,222	\$ 1,637,556	\$ 707,334

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 2022.

Chart MDA-5
FY 2022 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 180.

As presented in **Table MDA-12**, actual General Fund revenues and other sources were \$217,379, or 1.79%, more than the revised budget. This variance was primarily due to higher than expected property tax, sales and use tax, individual and franchise tax and growth in non-tax revenues that came from the miscellaneous revenue component which consists of interest income, unclaimed property proceeds and other sources.

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

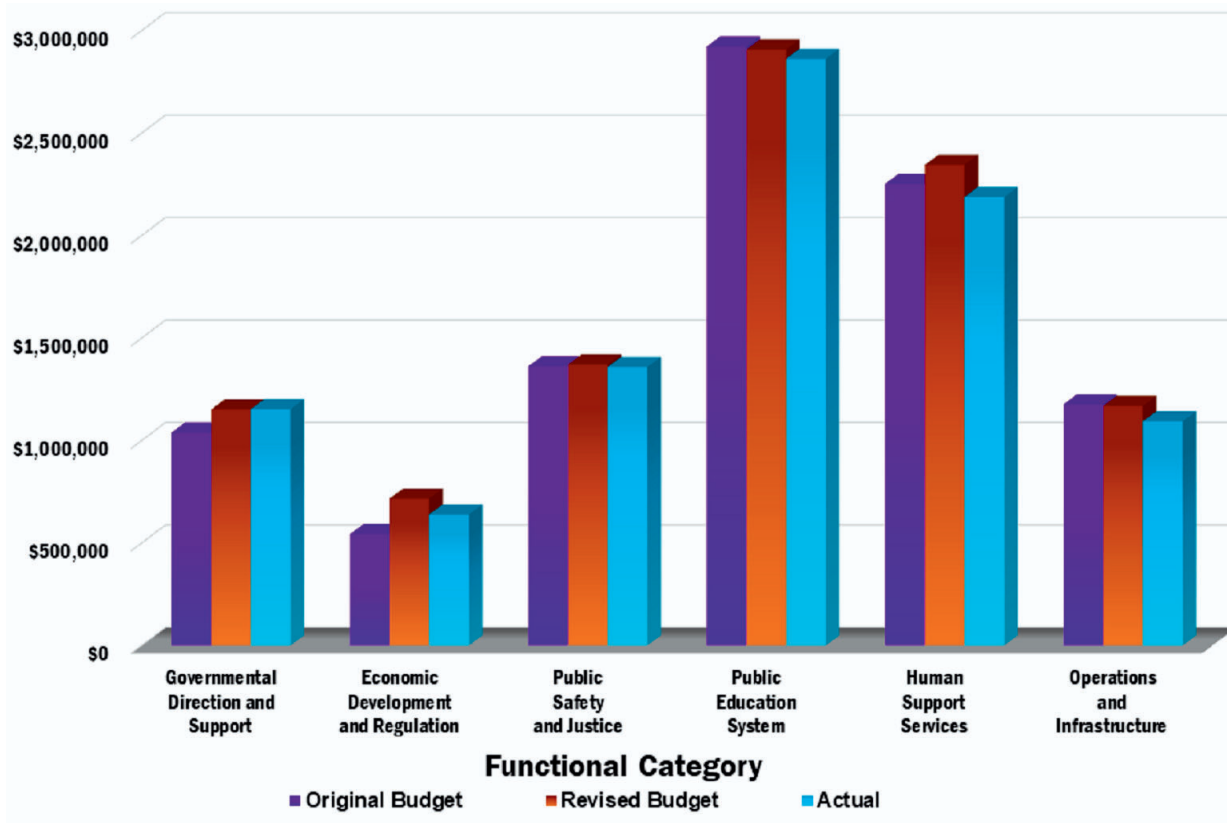
the imposed conditions have been met, allowing the assets to become available for use. In other words, this amount of fund balance was budgeted to help finance current year’s operations. As presented in **Table MDA-12**, the District utilized the fund balance by drawing on its available reserves to finance costs associated with activities that were not covered from the revenues generated during the fiscal year.

During fiscal year 2022, actual tax revenues comprised 79.16% of the General Fund’s total revenues and other sources.

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 2022.

Chart MDA-6
FY 2022 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 182.

Actual General Fund expenditures and other uses were \$489,955, or 4.38%, less than the revised budget. As presented in **Table MDA-12**, this variance was primarily due to underspending in the areas of Human Support Services, Public Education System and Economic Development and Regulation. In addition, the dedicated tax transfer to the Washington Convention and Sports Authority was lower than anticipated. The Washington Convention and Sports Authority receives a portion of the District’s tax revenues which are generated by activities within the hospitality industry (hotels, restaurants, entertainment, and other

retail). Because the hospitality sector continued to be affected by the pandemic, associated taxes generated were lower than expected. Moreover, 20.87% of the underspending was caused by the amount budgeted for workforce investments. The District budgets an amount for workforce investments which is used for pay increases and reforms that are expected in the budgeted year but are not finalized.

Expenditures in Public Education, Human Support Services, and Public Safety and Justice comprised 59.40% of the total actual General Fund expenditures and other uses.

SUBSEQUENT EVENTS**Income Tax Secured Bond Anticipation Notes**

In November 2022, the District increased the maximum combined principal amount of its revolving credit facility with U.S. Bank National Association supporting the Income Tax Secured Bond Anticipation Notes, Series

2021A and Series 2021B. The facility was increased by \$100,000 and allows the District to draw a combined outstanding principal that does not exceed \$300,000. As of September 30, 2022, \$13,665 of Series 2021B Notes were outstanding. The facility expires in March 2024.

CONTACT INFORMATION FOR THE OFFICE OF THE CHIEF FINANCIAL OFFICER

This ACFR is designed to provide a general overview of the District finances and to demonstrate the effectiveness of the District 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>