



GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF FINANCIAL OPERATIONS AND SYSTEMS  
810 FIRST STREET, NORTHEAST, SUITE 200  
WASHINGTON, D.C. 20002  
202-442-8200  
(FAX) 202-442-8201

January 28, 2010

Dr. Natwar M. Gandhi  
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (District) for the fiscal year ended September 30, 2009, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the District.

This report has been prepared in accordance with generally accepted accounting principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB) and includes all disclosures necessary for readers to gain a useful understanding of the District's financial activities. The city of Washington, D.C. is referred to in this CAFR as Washington, D.C., the City, and the District. This Transmittal Letter does not discuss the District's financial operations and results. To obtain a better understanding of the District's financial condition, refer to the Management's Discussion & Analysis (MD&A), which begins on page 21 of this CAFR.

The CAFR is presented in three sections: introductory, financial, and statistical, which are discussed below:

- **Introductory Section**, includes this letter of transmittal, a list of principal officials, the District's organizational chart, and GFOA's Certificate of Achievement for Excellence in Financial Reporting.
- **Financial Section**, includes the independent auditors' report; management's discussion and analysis (MD&A), which provides an introductory overview and analysis of the financial statements; the basic financial statements, which present the government-wide financial statements for the primary government and its component units and fund financial statements for governmental funds, proprietary funds, fiduciary funds, the combining statements of the discretely presented component units and notes to the financial statements; required supplementary information (RSI); and other supplementary information (OSI), which includes combining and individual fund statements and schedules.
- **Statistical Section**, provides financial, economic, and demographic data, for multiple years, to assist readers in assessing and analyzing the District's overall condition.

The ability to produce a timely and accurate CAFR depends upon the adequacy of the District's internal controls. Internal control is defined as a process, affected by an entity's governing board, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in one of the following categories: (a) efficiency and effectiveness of operations; (b) reliability of financial reporting; and (c) compliance with applicable laws and regulations. Reasonable assurance is defined as a high, but not absolute, level of assurance [confidence] about whether the financial statements are free of misstatement (whether caused by error or fraud.) The District's management is responsible for establishing and maintaining adequate internal controls. The greatest challenge in establishing and maintaining adequate internal controls is ensuring that the control framework developed by management is comprehensive—that is, broad enough to achieve its intended purpose.

Due to certain inherent limitations, such as prohibitive costs, judgment errors, or potential for management override and collusion, internal control can only provide reasonable assurance that management's objectives will be achieved. However,

routine, periodic audits help management to assess, on an on-going basis, the adequacy of the District's internal control. In accordance with D.C. Code Section 47-119, an independent auditor audited the District's financial statements for the year ended September 30, 2009. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. In addition to issuing an opinion on the District's financial statements, the independent auditor, BDO Seidman, LLP has also prepared a report which is issued in conjunction with the CAFR that discusses the auditor's consideration of the District's internal control over financial reporting and the outcome of the auditor's tests of the District's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters.

Moreover, audit of compliance with the Federal Single Audit Act Amendments of 1996 and the related OMB Circular A-133 is also performed annually. The District's fiscal year 2009 Single Audit Report will be issued at a later date.

GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and therefore, does not discuss the District's financial operations and results. For that reason, this letter should be read in conjunction with the MD&A in order to gain a better understanding of the District's financial condition.

## PROFILE OF THE GOVERNMENT

### Overview: Historical Background of the District

President George Washington established Washington, D.C. in 1791 from territory ceded by Maryland and Virginia. The United States Congress assumed jurisdiction over the District of Columbia, but residents of the District of Columbia did not have voting representation in Congress.

In February 1801, Congress enacted the Organic Act of 1801, that divided the capital district into the counties of Washington (former Maryland area) and Alexandria (former Virginia area). In 1846, Congress passed a law that allowed the return of the City of Alexandria and Alexandria County to the Commonwealth of Virginia. In 1871, Congress consolidated the three remaining municipal governments of the District of Columbia – Georgetown, Washington City and Washington County – into one territorial government. A territorial governor and council were appointed by the President and an elected House of Delegates and a non-voting delegate to Congress were also created. However, in 1874, the territorial government of the District of Columbia was abolished and the non-voting delegate to Congress was also eliminated at that time. The power to elect a mayor and council was subsequently eliminated in 1878.

With the ratification of the 23<sup>rd</sup> Amendment to the U.S. Constitution in 1961, citizens of Washington, D.C. were granted the right to vote in a presidential election. As part of a reorganization of city government that also included an appointed council, in 1967, President Lyndon Johnson appointed Walter E. Washington mayor. In 1970, Congress passed the District of Columbia Delegate Act, and in 1971, Walter Fauntroy became the District's first congressional representative.

Congress passed the District of Columbia Home Rule Act in 1973, which provides for a popularly elected mayor and a 13-member D.C. Council. Congress retained and continues to retain the right to review and overturn the legislative acts of the D.C. Council if both houses vote within 30 legislative days. The budget for the District of Columbia government must be approved by Congress and the President of the United States.

The Home Rule Act prohibits the taxing of federal property, any property exempted from taxation by federal law and the income of non-District residents who work in the District. In 1983, it was determined that the District could legally issue its own debt and on October 15, 1984, the District issued municipal debt on its own for the first time, in the form of Tax Revenue Anticipation Notes (TRANs), totaling \$150 million. These TRANs were paid in full on September 30, 1985.

Although progress has been made on many fronts throughout the District's history, District residents do not have voting representation in Congress. In accordance with the District of Columbia Delegate Act of 1970, U.S. Public Law 91-405, the citizens of the District of Columbia are represented in the House of Representatives by a Delegate, who is elected by the voters of the District of Columbia. Consistent with the Act:

*The Delegate shall have a seat in the House of Representatives, with the right of debate, but not of voting, shall have all the privileges granted a Representative by § 6 of Article I of the Constitution, and*

*shall be subject to the same restrictions and regulations as are imposed by law or rules on Representatives. The Delegate shall be elected to serve during each Congress.*

Although the current D.C. Delegate, Congresswoman Eleanor Holmes Norton, has no voting power, she has been able to accomplish much for the citizens of Washington, D.C. The following are some of her major recent accomplishments:

- Secured a determination letter from the Internal Revenue Service that the District of Columbia Historic Homeowner grants are not federally taxable, thereby relieving low and moderate-income homeowners of a burdensome and unintended tax bill that could have been as much as \$8,000.
- Renewal of the D.C. Homebuyers Tax Credit of \$5,000 for qualified purchasers of a principal residence in Washington, D.C. and certain other small business tax credits (through the passage of the Emergency Economic Stabilization Act of 2008).
- Secured \$3 million in stimulus funds (through the American Recovery and Reinvestment Act) for pre-apprenticeship and apprenticeship programs to ensure that women and minorities could qualify for jobs created by stimulus funds, particularly in the construction and greening industries. As a result, it is estimated that more than 200 pre-apprenticeship positions were made available in the District.
- Obtained funds to: (a) assist organizations that serve the city's youth; (b) support and promote the cleanup of the Potomac River, Anacostia River, and the Chesapeake Bay; (c) assist Children's Hospital in purchasing state-of-the-art technology to detect and study brain tumors, autism, cancers, neurological abnormalities and congenital diseases; and (d) support the operations and activities of other medical facilities in the District, such as Whitman-Walker Clinic, Washington Hospital Center, and Veterans Hospital.

For more information on the accomplishments and current objectives of the D.C. Delegate, visit Congresswoman Eleanor Holmes Norton's website at [www.norton.house.gov](http://www.norton.house.gov).

## **Financial Reporting Entity**

For financial reporting purposes, the District's reporting entity consists of: (1) the primary government; (2) five discretely presented component units (Housing Finance Agency, Sports and Entertainment Commission, University of the District of Columbia, Washington Convention Center Authority, and Water and Sewer Authority); and (3) one blended component unit (the Tobacco Settlement Financing Corporation). The District of Columbia Housing Authority and the District of Columbia Courts are considered related organizations because the District is not financially accountable for their operations. The funds and accounts of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included in the reporting entity. Further information on the reporting entity can be found in Note 1B, page 56 of the Notes to the Basic Financial Statements.

The District and its component units provide a wide range of services to residents, including elementary, secondary, and postsecondary education; health and human services; economic development and regulation; public safety; transportation; and other general government services.

## **Budgetary Information**

During the first quarter of each fiscal year, agencies begin the budget formulation process for the upcoming fiscal year. In March of each year, consistent with Section 442 of the Home Rule Act (D.C. Code § 47-301), the Mayor submits a balanced operating budget for the upcoming fiscal year to the Council for review and approval. The Council holds public hearings and adopts the budget through passage of a Budget Request Act. A financial plan for the District's capital projects is also adopted. The Mayor may not submit and the Council may not adopt any budget which presents expenditures and other financing uses that exceed revenues and other financing sources. After the Mayor approves the adopted budget, it is forwarded to the President and Congress for approval. Congress holds public hearings and enacts the District's budget through passage of an appropriations bill, which is signed into law by the President of the United States.

The legally adopted budget is the annual Appropriations Act passed by Congress and signed by the President. The Appropriations Act authorizes expenditures at the agency level and by appropriation title (function), such as Public Safety and Justice; Human Support Services; or Public Education. To revise planned expenditures for any function, Congress must enact

the appropriate legislation. However, the District may reallocate budgeted amounts using the District's reprogramming process in accordance with the applicable legal requirements.

The District utilizes budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriations act. Both automation and sound governance provide strong budgetary controls. The annual budget is assigned specific accounting attributes and is uploaded into the District's accounting system of record, thereby establishing the budget authority for each entity within the District government. The budget authority provided in the system of record is then reconciled to ensure that it matches the levels approved by the Appropriations Act. In addition, on an annual basis, independent auditors review the budget levels to ensure compliance with federally approved amounts and to determine whether all budget adjustments are properly documented and approved.

The "*District Anti-Deficiency Act of 2002*" (the Act), which became effective on April 4, 2003, introduced additional budgetary control requirements. This Act requires District managers to develop spending projections, by source of funds, on a monthly basis, which show year-to-date spending, approved budget, year-end projected spending, explanations of variances greater than 5%, and planned corrective actions for instances of overspending. Spending projections are required to be submitted to the agency head and the Agency Fiscal Officer. Summarized spending projections must be submitted to the District's CFO no more than 30 days after the end of each month.

Other reporting requirements have also been established to enhance the District's budgetary control policies and practices. Consistent with D.C. Code § 47-355.04, agency heads and Agency Fiscal Officers are to jointly submit a monthly spending plan for the fiscal year to the CFO by October 1 of each fiscal year. In addition, pursuant to D.C. Code § 47-355.05, the District's CFO is to submit quarterly reports to the Council and the Mayor that present each agency's actual expenditures, encumbrances, and commitments, each by source of funds, compared to each agency's approved spending plan. This report is required to be accompanied by the District CFO's observations regarding spending patterns and steps being taken to ensure that spending remains within the approved budget. These reports are used by the District's Anti-Deficiency Review Board to review cases of overspending.

In addition, the District uses encumbrance accounting as a means of strengthening budgetary controls and financial reporting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the system of record in order to reserve the portion of the related appropriation that will be needed for the expenditure. Therefore, the recording of encumbrances is a valuable tool used by the District to ensure that expenditures are within budgeted amounts. Generally, encumbered amounts lapse at year-end in the general fund but not in the capital projects fund.

## **Cash Reserves**

Through Congressional mandate, the District is required to maintain cash reserves totaling 6% of the general fund expenditures less debt service. The 6% is comprised of a contingency cash reserve of 4% and an emergency cash reserve of 2%. The contingency cash reserve may be used to provide for nonrecurring or unforeseen needs (e.g., severe weather or other natural disasters, and unexpected obligations created by federal law) that arise during the fiscal year or to cover revenue shortfalls experienced by the District for three consecutive months. The emergency cash reserve may be used to provide for unanticipated and nonrecurring extraordinary needs of an emergency nature (e.g., natural disaster or calamity) and may be used in the event that the Mayor declares a State of Emergency in the District.

## **District Accounting and Financial System**

### Accounting System

The District's accounting system is organized and maintained on a fund basis. Each fund, which is a separate, distinct accounting entity, has its own assets, liabilities, equity, revenues, and expenditures/expenses. The District uses generally accepted accounting principles (GAAP) when determining the types of funds to be established and is guided by the "minimum number of funds principle" and sound financial management practices when determining the number of funds to be set up within each fund type. Specialized accounting and reporting principles and practices apply to governmental funds. Proprietary funds, component units and pension trust funds are accounted for in the same manner as business enterprises.

### Measurement Focus and Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Accordingly, the measurement focus and basis of accounting applied in the preparation of fund financial statements and government-wide financial statements are as follows:

- The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting.
- Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting.
- The budgetary basis of accounting is used to prepare the budgetary comparison statement presented in Exhibit 2-d. This basis of accounting differs from the GAAP – basis due to the basis, entity and perspective differences, as follows:
  - **Basis Differences** - The District uses the purchases method for budgetary purposes, and the consumption method to account for inventories on a GAAP basis. Under the purchases method, purchases of inventories are recognized as expenditures when the goods are received and the transaction is vouchered. Under the consumption method, a governmental expenditure is recognized only when the inventory items are used.
  - **Entity Differences** - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those on a GAAP basis for reporting purposes. Such activities primarily include the following as reported in Exhibit 2-d:
    - Fund balance released from restrictions
    - Proceeds from debt restructuring
    - Accounts receivable allowance
    - Operating surplus from enterprise funds
  - **Perspective Differences** – Perspective differences exist when the structure of financial information for budgetary purposes differs from the fund structure that is used to construct the basic financial statements. If there were significant budgetary perspective differences, the District would not be able to present budgetary comparisons for the District's general fund and major special revenue funds as part of the basic financial statements. In that case, the District would have to present its budgetary comparisons as required supplementary information (RSI). The District does not have any significant budgetary perspective differences, and its *Budgetary Comparison Statement*, Exhibit 2-d, is presented as part of the basic financial statements on page 47.

### Cash Management

It is the policy of the District to combine or pool all cash of the primary government unless prohibited by law. Cash that is not needed for immediate disbursement is generally invested in securities which are essentially guaranteed by the federal government. Such investments include but are not limited to mutual funds consisting of federal government obligations or repurchase agreements collateralized by federal agency obligations.

The Financial Institutions Deposit and Investment Amendment Act of 1997 (D.C. Code §47-351.3) authorized the District to invest in certain obligations that are not guaranteed by the federal government. Such deposits and investments are fully collateralized with approved securities that are held by the District or by its agent in the District's name.

### Risk Management

With the exception of healthcare and life insurance benefits for employees, the District retains the risk of loss arising from the ownership of property or other causes. The District is self-insured for general liability and liabilities associated with unemployment and disability (worker's compensation). A liability is established in the government-wide statement of net assets to reflect certain contingencies; however, this amount is not intended to include all assets that may be required to finance losses. Rather, certain losses are recognized in the affected funds when they occur.

## ECONOMIC CONDITION AND OUTLOOK

### Impact of the Recession on the District in Fiscal Year 2009

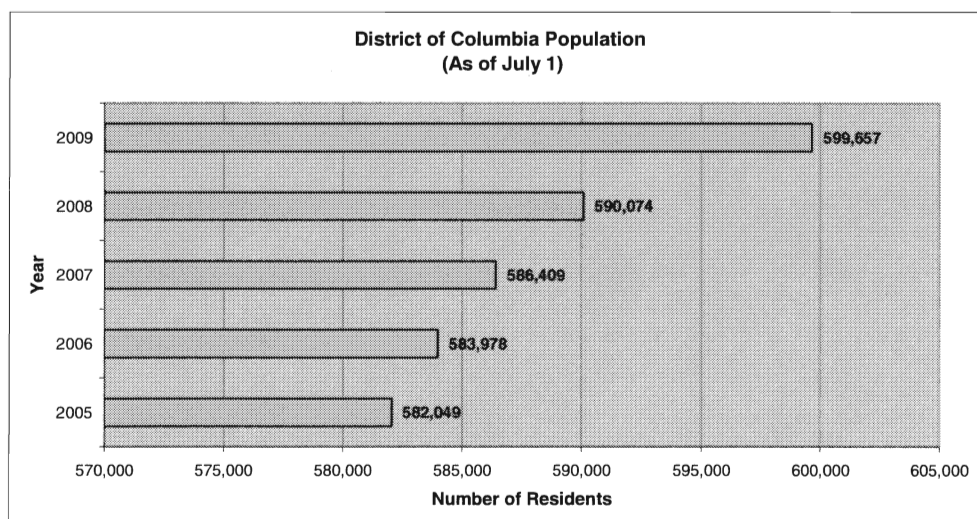
The impact of the continuing U.S. recession on the District's economy was mixed in fiscal year 2009; however, gross local revenues were greatly affected, falling by 6.3% from fiscal year 2008. In sharp contrast to the United States as a whole, almost 5,000 more people were working in the District at the end of the fiscal year than at the beginning of the year primarily because of increases in federal government employment. On the other hand, during fiscal year 2009 resident employment fell by 14,600 (4.7%) and the unemployment rate rose to 9.9%. Similar trends were noted regarding wage and salary income. Due largely to growth in the federal government sector, wages and salaries earned in the District increased 3.4% during fiscal year 2009 (compared to a 2.5% fall in the U.S. as a whole), while wages earned by District residents fell an estimated 2.4%. Real estate was one of the areas of the economy in which the recession's impact has been particularly evident. The value of all housing sales in the District fell another 2.4% during fiscal year 2009 (an improvement from the 22.1% decline in fiscal year 2008), and the vacancy rate in commercial office space in the District (including sublet space) rose to 10.2% from 6.6% a year earlier as new buildings were completed and competed for tenants. While tourism benefitted from the Presidential Inauguration in fiscal year 2009, hotel revenues from room sales for the year declined 2.9%. Revenue declines in fiscal year 2009 were particularly severe in the areas associated with real estate transactions, business profits, and capital gains. Thus, deed transfer and deed recordation taxes were down 42.0%, business income taxes were down 17.2%, and the individual income tax net of withholding declined 69.5%. General sales tax revenues were down 5.1%.

### Local Economy

#### Population

The U.S. Census Bureau estimated that there were 599,657 residents in Washington, D.C., as of July 1, 2009. This represents an increase of 9,583, or 1.6% from the revised July 1, 2008 estimate of 590,074. The annual census estimates are based on birth and death records, changes in tax return filings, and estimates of the number of immigrants who move into Washington, D.C. each year. **Chart 1** presents the District's population trends for calendar years 2005 through 2009.

**Chart 1 – Population Trends (2005 – 2009)**



#### Employment Trends

Total wage and salary employment in the Washington metropolitan area decreased to approximately 2,986,100 in FY2009 from the revised 3,006,582 for FY2008, representing a -0.7% decrease. However, these numbers exclude the self-employed, domestic workers, and military and foreign government personnel, which represent a significant portion of the total work force of the region. Some of the references to the 2008 employment numbers may differ from those presented in the FY 2008 CAFR because of updates and revisions. **Table 1** presents 2009 labor market data for the District and the metropolitan region.

**Table 1 – 2009 Labor Market Data for the District and Surrounding Metropolitan Area**

Labor Market ('000s): FY 2009

Item	District of Columbia			Metropolitan area		
	Level	1 yr. ch. (amt.)	1 yr. ch. (%)	Level	1 yr ch. (amt.)	1 yr. ch. (%)
Employed residents	298.6	-14.6	-4.7	2,849.5	-70.8	-2.4
Labor force	329.3	-3.0	-0.9	3,019.1	-3.8	-0.1
Total wage and salary employment	707.4	4.9	0.7	2,986.1	-20.4	-0.7
Federal government	196.4	3.8	1.9	355.3	9.3	2.7
Local government	42.1	0.5	1.1	312.8	0.8	0.3
Leisure & hospitality	151.3	-1.8	-1.2	260.7	0.0	0.0
Trade	47.1	-2.3	-4.7	324.5	-14.1	-4.2
Education and health	105.6	4.3	4.3	342.3	6.5	1.9
Prof., bus., and other services	81.5	0.9	1.1	871.5	6.4	0.7
Other private	65.3	0.5	0.9	519.0	-29.4	-5.4
Unemployed	32.5	11.7	55.9	169.6	66.9	65.2
New unempl. Claims	2.2	0.7	45.4			

Sources: U.S. Bureau of Labor Statistics (BLS) &amp; D.C. Dept. of Employment Services (DOES)

All data are monthly averages for the fiscal year.

During the past three years, total wage and salary employment within Washington, D.C. has remained at approximately 23.7% of the metropolitan area's total wage and salary employment. The seasonally adjusted September 2009 unemployment rate in Washington, D.C. was 11.4%, compared to the September 2008 seasonally adjusted rate of 7.4%.

Total employment within Washington, D.C. increased slightly to 703,700 as of September 2009 from the revised 703,600 as of September 2008. As the nation's capital, Washington, D.C. is the seat of the federal government and headquarters for most federal departments and agencies. The total September 2009 federal workforce in the Washington metropolitan area totaled 360,900; with approximately 199,900 federal employees located in Washington, D.C. and 161,000 additional federal employees who worked elsewhere in the Washington metropolitan area. Although both the District and the federal government employ fewer employees than 15 to 20 years ago, new business operations, especially in the service industry, have filled the void and strengthened the local economy. Increased spending by the Department of Homeland Security and the Department of Defense is also helping to stabilize federal employment in the region.

### Income Trends

Over the past decade, income has grown considerably in the District. From the third quarter of 1999 to the third quarter of 2009, personal income grew 81% in the District, as compared to 52% nationally. Over the past five years, personal income in the District grew 29% as compared to 21% in the U.S. The District's per capita income of \$66,119 in 2008 was 64.4% higher than the U.S. average. However, the distribution of income in the District differs from that of the nation as a whole, with higher proportions at the higher and lower ends and a smaller proportion in the middle. Consequently, median household income in the District is much closer to the U.S. average. For the two-year period 2007 and 2008, the District's median household income of \$54,162 was 5.7% above the U.S. average. The Census Bureau estimates that 16.5% of the District's population was below the poverty line in 2008 as compared to 13.7% for all of the U.S.

### Minimum Wage Rate

District law requires that the minimum wage rate for District employees be at least \$1.00 per hour greater than the Federal minimum wage. In July 2007, the federal minimum wage rate was increased to \$5.85 per hour from \$5.15 per hour, where it had been since September 1, 1997. The President signed into law an increase in the federal minimum wage in three steps: \$5.85 per hour beginning on July 24, 2007; \$6.55 per hour beginning on July 24, 2008, and \$7.25 per hour beginning on July 24, 2009. Accordingly, the District's minimum wage rate increased to \$7.55 per hour on July 24, 2008 and \$8.25 per hour on July 24, 2009.

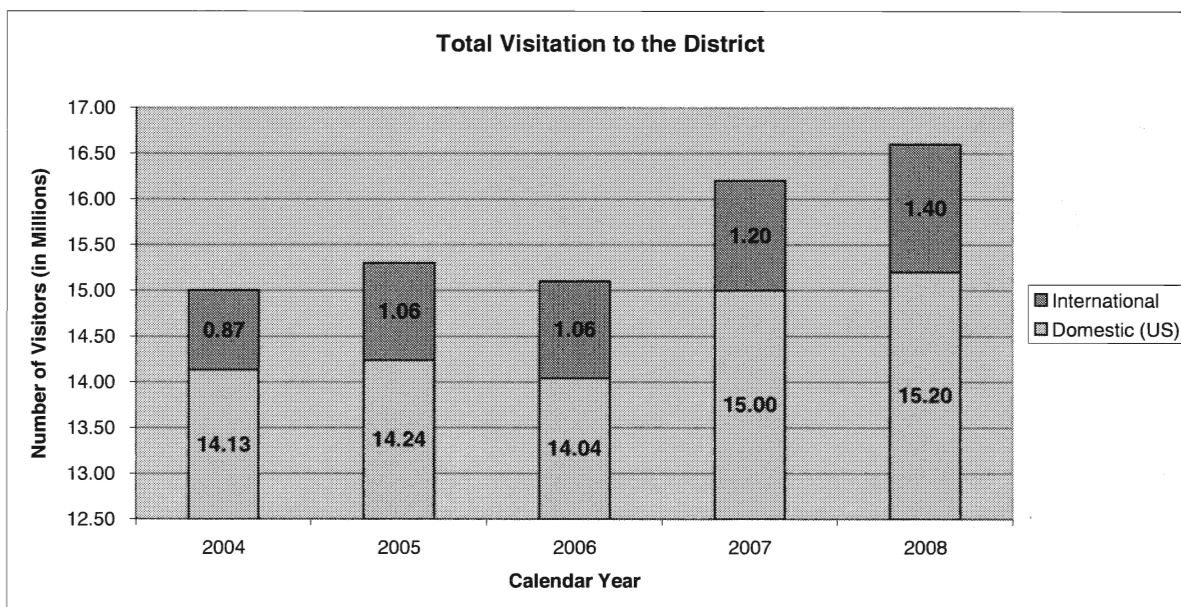
### Tourism and Hospitality

Millions of U.S. citizens and international tourists visit the more than 400 museums and historical landmarks in the District each year. Popular attractions include sites along the National Mall, monuments to U.S. presidents, war memorials, and other museums.



According to the U.S. State Department's "Diplomatic List – Spring/Summer 2009," 188 foreign embassies and recognized diplomatic missions are located in Washington, D.C. In addition, a number of international organizations, such as the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States, are also located in the District. The presence of these entities helps to boost tourism/visitation within the District. In calendar year 2008, approximately 15.2 million domestic visitors and 1.4 million international visitors traveled to the District. During calendar year 2008, the District was the eighth most visited destination in the U.S. for international travelers, with most coming from the United Kingdom, Germany, Latin America, Japan, India, South Korea, Denmark, Finland, Norway, Sweden, Australia, Italy, France, China, the Netherlands, Belgium, and France. **Chart 2** presents the trends in tourism for calendar years 2004 through 2008.

**Chart 2 – Trends in District Tourism (2004 – 2008)**



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

**Note:** Tourism data for calendar year 2009 are not yet available.

Direct visitor spending generated additional business activity in related industries (e.g., hotels, restaurants, retail) and continues to sustain the local and regional economy. The District's hospitality industry generated an estimated \$5.64 billion in visitor spending on hotels, retail, transportation and entertainment in 2008, which was an increase of 1.0% over the prior year. Hotel occupancy was approximately 74% at September 30, 2009 and was approximately 50% by the end of December 2009. Travel and tourism supports more than 71,000 full-time jobs in the District, generating approximately \$2.7 billion in wages.

### Construction

Development in the District continues to be strong in the retail sector. Major retail deliveries in the past year included a new Safeway and Yes! Organics. By the close of 2011, ten additional grocery stores are slated to open, including three Safeways, two Giant Foods, one Yes! Organic, and one Harris Teeter.

In addition, the D.C. Public Schools are undergoing an immense \$1.3 billion modernization effort to upgrade aging buildings and construct new schools by 2014. This major project is being implemented to better accommodate the needs of more than 44,000 students who are enrolled in the District's public schools. The D.C. Office of Public Education Facilities Modernization is overseeing the upgrades and new construction. Approximately \$264.8 million was budgeted in fiscal year 2009 for this effort.

In addition, several colleges and universities are located in the District, each requiring state-of-the-art facilities to meet the changing needs of the student population. Therefore, colleges and universities continue to add new academic centers and dormitories to accommodate the needs of a multi-talented and diverse student population.



Bond Rating

Rating agencies assess the credit quality of municipal issuers and assign a credit rating to the issuer based on the results of their analyses. Consequently, rating agencies provide vital information to investors regarding the relative risks associated with rated bond issues. An acceptable credit rating allows the issuer to access the market.

The three primary rating agencies that rate municipal debt are: (1) Fitch Ratings; (2) Moody's Investors Service; and (3) Standard & Poor's Rating Service. The District's bond ratings from these rating agencies for the past four years were as follows:

**Bond Rating History**  
**Last Four Fiscal Years**

	General Obligation Bonds				Income Tax Secured Revenue Bond *
	2006	2007	2008	2009	2009
<b>Fitch</b>	A	A+	A+	A+	AA
<b>Moody's</b>	A2	A1	A1	A1	Aa2
<b>S&amp;P</b>	A+	A+	A+	A+	AAA

\* New for FY 2009

As presented above, the District's bond ratings have improved over the years. As a result, the District has been able to access the market (issue bonds) more cost-effectively.

During fiscal year 2009, the District established its Income Tax Secured Revenue Bond Fund and issued its first Income Tax Secured Revenue Bonds. In March and August 2009, the District issued Income Tax Secured Revenue Bonds in the amount of \$801,330 and \$270,455 respectively. The Income Tax Secured Revenue Bonds are special obligations of the District payable solely from the Trust Estate pledged under the indenture. The bonds are without recourse to the District, and are not a pledge of, and do not involve, the faith and credit or the taxing power of the District (other than the pledge of the available tax revenues made by the indenture and the Act). The bonds do not constitute a debt of the District, and do not constitute lending of the public credit for private undertakings. As of September 30, 2009, the credit ratings for the District's Income Tax Secured Revenue Bonds were as follows: (a) Fitch, AA; (b) Moody's, Aa2; and (3) Standard and Poor's, AAA.

**Other Factors Affecting the District's Financial Position**

The District, as the central urban location of a large metropolitan area, houses a disproportionately large share of the poor and needy population. The District's overall poverty rate of 16 percent and child poverty rate of 23 percent are significantly higher than the U.S average and that of neighboring counties in Maryland and Virginia. Unlike other urban jurisdictions, the District cannot pool resources across suburban areas to serve its urban poor. Yet, it must provide state-level services such as healthcare, housing and welfare largely through its own resources.

The District's service problems are exacerbated by the higher costs of service delivery. Labor costs in the District are 23 percent above the national average for public services, and the capital costs are 65 percent above the national average. This combination of a significant population in need of services and the high costs of service delivery result in undue strain on the financial resources of the District. Specifically, if the District were to offer a basket of public services that prevail as "average" among all the state and local governments, it would have to spend 31 percent more than the national average to deliver it.

The District's tax base has been externally restricted through federal actions. First, the federal government prohibits the taxation of federal real property and does not provide a Payment in Lieu of Taxes to compensate for the revenue forgone from this prohibition. Second, the Home Rule Act prohibits the District from taxing nonresident income. This is a significant reduction in the income tax base because approximately 70 percent of the workers in the District are nonresidents.

These restrictions on the revenue collections imply that the District's residents must bear a disproportionate share of the costs of public services, while the benefits generated by the District are shared by a much larger community. It also implies that under slower revenue growth scenarios, District services could become severely impaired.

The U.S. Government Accountability Office (GAO) has confirmed the District's assessment of these factors through the issuance of a report entitled, "District of Columbia – Structural Imbalance and Management Issues." The GAO's report, issued in May 2003, describes the impact of such factors as the high cost of living, high poverty and crime rates, and limited tax base on the District's financial operations and estimates the range of the District's structural deficit between \$470 million to \$1.143 billion annually. Although the GAO's report discusses conditions that existed several years ago, the District's financial operations continue to be restrained by these conditions.

## Long-Term Financial Planning

As a result of improved financial management practices, the District has been able to develop and operate within more disciplined budgets while generating and maintaining substantial cash reserves. Consequently, the District is positioned to efficiently and effectively address the challenges presented by the declining national economy.

District officials have developed a plan to maintain a strong, stable financial environment during the economic downturn, as summarized briefly below:

- Continued monitoring and analysis of quarterly revenue estimates with spending adjustments being made throughout the year, as necessary;
- Developing and implementing plans to minimize costs without sacrificing essential program services; and
- Identifying sound measures to enhance revenue streams.

## Major Initiatives

Many initiatives and projects have been completed or planned that will help to sustain the District's economy and produce strong financial results. Several of the District's major initiatives and projects are discussed briefly below:

- **Waterfront Station:** This is a new 2.5 million square foot mixed-use project on the site of the former Waterside Mall located at M and 4th Streets, S.W., adjacent to the Waterfront/SEU Metrorail station. The \$760 million Waterfront Station will ultimately consist of 1.2 million square feet of new office space, about 1,000 new residential units, underground parking and a minimum of 110,000 square feet of retail space. The office buildings have been designed and are being constructed to LEED Silver standards.

The office component is fully leased to the District of Columbia and will house workers for the Office of the Chief Financial Officer, Office of Planning, District Department of Transportation and the Department of Consumer and Regulatory Affairs. The retail component will include two existing retailers on the site—Safeway and CVS—along with several additional new dining and neighborhood service-related retail tenants. In all, approximately 85,000 square feet of retail space will open as a part of the project's first phase. The buildings are expected to be completed in March 2010.

- **The Park at the Yards:** This is a 5.4-acre public waterfront park overlooking the Anacostia River. The park is a key component of The Yards project, which will include the development of a dynamic urban neighborhood spanning 42-acres along the Anacostia Waterfront.

At a cost of \$42 million, The Park at the Yards will include a riverfront promenade, vast open lawns for community gatherings and outdoor events, gardens with benches and colorful plants, a riverfront courtyard enclosed on three sides by retail pavilions, a canal basin and waterfall, a pedestrian bridge, and the restoration of the historic Lumber Shed building. The District's Anacostia Riverwalk Trail will run through the park, providing vital pedestrian and bicycle links to the rest of the Anacostia waterfront.

Located between Nationals Park and the Navy Yard, The Park at the Yards is part of the largest public-private project in the District in decades—The Yards. When completed, The Yards will also accommodate approximately 2,700 new condos and apartments, 400,000 square feet of restaurants and assorted shops, 1.8 million square feet of office space, and the preservation of unique historical buildings already located on the site. The Yards is projected to house more than 3,700 new residents and create 7,700 jobs – most of them office jobs – generating approximately \$450 million in paychecks each year.

- **Reopening of Eastern Market:** In June 2009, the District celebrated the grand reopening of the historic Eastern Market. The event marks the completion of a \$22 million renovation after a fire partially damaged the market in April 2007. All of the original vendors that served the community at Eastern Market prior to the fire have returned.

Located in the historic district of Capitol Hill, Eastern Market is the oldest continually operating market in the District which offers residents and tourists daily produce, meat, cheese and bakery products, a weekend farmers market, and craft sales while also operating as an informal community center. The renovated market now has modern heating and air conditioning systems, free Wi-Fi internet access, new restrooms and sprinklers, and access ramps to comply with the Americans with Disabilities Act. The skylights and chimneys have been restored and new windows have been installed that protect against ultraviolet (UV) light. To reduce energy costs, the interior lights can be dimmed to adjust to days of sufficient natural light. A new fire monitoring system operates 24 hours a day and is programmed to automatically call 911 if a fire ever occurs on site.

- **Convention Center Headquarters Hotel:** The District and Marriott International have partnered to build a 1,167-room Marriott Marquis convention center headquarters hotel to support the Walter E. Washington Convention Center. In support of this project, in July 2009, the Council approved the public financing component for the hotel's construction. When completed, the hotel will include approximately 100,000 square feet of meeting space, a 30,000 square foot ballroom and two junior ballrooms, and approximately 400 parking spaces. The hotel is slated to open during the first quarter of 2013.
- **CityCenterDC (Old Convention Center Site):** CityCenterDC, an \$850 million retail, residential, and office project located on the site of the former Washington Convention Center, is being developed to reinvigorate the 10-acre area within 9<sup>th</sup>, H, and 11<sup>th</sup> Streets, and New York Avenue, N.W. The project will create a pedestrian-friendly neighborhood with 250,000 square feet of retail; more than 670 apartments and condos including at least 134 units of affordable housing; and 465,000 square feet of office space, parks, and entertainment areas.

This project is expected to: (1) generate 3,842 construction jobs and 3,885 direct permanent jobs; (2) generate more than \$30 million a year in direct tax revenues; (3) provide affordable housing for 20% of all units, and 80% of all units for those earning 30 percent, 60 percent and 80 percent of the areas median income, and; (4) create significant opportunities for Certified Business Entities (CBE). CBEs will also own 20 percent of developer equity, and at least 35 percent of construction and operations will go to CBE contractors. District residents will be given priority for at least 51 percent of all new jobs created in relation to the project.

- **New Communities:** The New Communities Initiative is a comprehensive partnership between the District government, neighborhoods, and other public and private stakeholders, designed to improve the quality of life for families and individuals living in four District Neighborhoods: Barry Farm, Lincoln Heights/Richardson Dwellings, Northwest One, and Park Morton. The New Communities Initiative provides resources needed to transform highly concentrated low-income neighborhoods into healthy, vibrant mixed-income neighborhoods.
- **Anacostia Waterfront Initiative:** The Anacostia Waterfront Initiative is a multi-agency effort to revitalize the areas around the waterfront of the Anacostia River, transforming them into a hub of economic development and community revitalization. The Anacostia Waterfront Initiative is one of the most ambitious development plans in the District's history. In partnership with 19 regional and federal agencies, this \$8 - \$10 billion project, which will span approximately 30 years, will promote: environmentally responsible development; transformation of the many diverse waterfront areas into commercial, residential, recreational, and open-space uses; development and conservation of park areas; and increased access to the waterfront, surrounding communities, and business corridors.
- **Great Streets:** The Great Streets Initiative is a partnership between the District Department of Transportation, the Office of the Deputy Mayor for Planning and Economic Development, the Office of Planning, the Department of Parks and Recreation, and Neighborhood Service Coordinators that targets major boulevards in the city to improve the condition of streets and roadways, promote local business enterprises, and improve the quality of life in District neighborhoods. This initiative uses a multidisciplinary approach to corridor improvement that combines investments in public space, strategic land use, public safety strategies, and economic development assistance.

The purpose of the Great Streets Initiative is to revitalize the Great Streets corridors, and make them unique community centers that meet the needs of District residents, business owners, workers, and visitors. More than \$200 million is being invested in new mixed use development projects, storefront improvements, transportation, streetscape, and transit improvements along seven targeted corridors including:

- **7<sup>th</sup> Street and Georgia Avenue, N.W.**  
(Mount Vernon Square to Eastern Avenue)
  - **Benning Road, N.E.**  
(Bladensburg Road to Southern Avenue)
  - **H Street, N.E.**  
(North Capitol Street to 17<sup>th</sup> Street, N.E.)
  - **Martin Luther King, Jr. Avenue, S.E. and South Capitol Street**  
(East of the Anacostia River, Good Hope Road to Southern Avenue)
  - **Pennsylvania Avenue, S.E.**  
(Second Street, S.E. to Southern Avenue)
  - **Minnesota Avenue**  
(Good Hope Road to Sheriff Road)
  - **Nannie Helen Burroughs Avenue, N.E.**  
(Minnesota Avenue to Eastern Avenue)
- **St. Elizabeth's West Campus:** The U.S. Department of Homeland Security (DHS) has been granted approval to build its headquarters on the west campus of St. Elizabeth's Hospital. This \$3.4 billion headquarters will be one of the largest construction projects in the Washington area since the Pentagon was built in the 1940s. When completed, the DHS headquarters will house approximately 14,000 employees. Other federal agencies will also be housed on this site including: the Transportation Security Administration, Customs and Border Protection, Immigration and Customs Enforcement, and the Federal Emergency Management Administration. The District anticipates that this project will be a catalyst that stimulates development along Martin Luther King, Jr. Avenue, S.E.

Additional information about these and other initiatives within the District may be obtained from the following:

**Office of the Deputy Mayor for Planning & Economic Development**

John A. Wilson Building  
1350 Pennsylvania Avenue, N.W., Suite 317  
Washington, D.C. 20004  
Telephone: (202) 727-6880  
Website: <http://dcbiz.dc.gov>

**District Department of Transportation**

2000 14<sup>th</sup> Street, N.W., 6<sup>th</sup> Floor  
Washington, D.C. 20009  
Telephone: (202) 673-6813  
Website: <http://ddot.dc.gov>

**Office of Planning**

2000 14<sup>th</sup> Street, N.W., 4<sup>th</sup> Floor  
Washington, D.C. 20009  
Telephone: (202) 442-7600  
Website: <http://planning.dc.gov>

**Department of Parks and Recreation**

3149 16<sup>th</sup> Street, N.W.  
Washington, D. C. 20010  
Telephone: (202) 673-7647  
Website: <http://dpr.dc.gov>

**Department of Real Estate Services**

2000 14<sup>th</sup> Street, N.W., 8<sup>th</sup> Floor  
Washington, D. C. 20009  
Telephone: (202) 724-4400  
Website: <http://dres.dc.gov>

**U.S. General Services Administration**

1800 F Street, N.W.  
Washington, D.C. 20405  
Telephone: (202) 501-0705  
Website: [www.gsa.gov](http://www.gsa.gov)

## AWARDS AND ACKNOWLEDGMENTS

### Awards

GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the District of Columbia for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2008. The District has received this award for twenty-five of the last twenty-seven years. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards established for the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

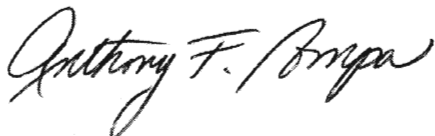
The District also earned an award from GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the fiscal year ended September 30, 2008 for the sixth consecutive year. The PAFR was prepared and submitted by the District for the first time for FY 2003. The PAFR presents the District's financial results in a format and language that are intended to be more easily understood by the general public. The PAFR is not required to present the same level of detail as the CAFR. It contains very few financial statements, less technical language, and more graphics and photos.

Both awards are valid for one fiscal year. The District believes that the FY 2009 CAFR continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate. The District also expects that the FY 2009 PAFR, which will be prepared within 30 days after the CAFR is completed, will conform to the Award for Popular Annual Financial Reporting Program requirements. It will also be submitted to the GFOA to determine its eligibility for another certificate.

### Acknowledgments

I would like to thank the hundreds of accounting and financial personnel throughout the District who have worked cooperatively with the Office of Financial Operations and Systems throughout the year. I greatly appreciate their efforts, which contribute significantly to the timely preparation of the CAFR. I want to thank my immediate staff, *Bill Slack, Diji Omisore, Tonja Lowe, Wilma Matthias, Vanessa Jackson*, and their respective team members. I am grateful for their dedicated efforts. I would also like to thank the Office of the Inspector General, and the District's independent auditors, *BDO Seidman, LLP*, assisted by *Bert Smith and Company*, for their efforts throughout the audit engagement.

Respectfully submitted,



Anthony F. Pompa  
Deputy Chief Financial Officer  
Financial Operations and Systems