District of Columbia

District of Columbia

General Credit Update

February 3, 2012

District of Columbia

Presentation Agenda

- Introduction
- FY 2011 CAFR Results
- District Economy and Revenue Estimates
- Economic Development Projects
- Update on the District's Financial Performance
- Hospital Update
- Debt Position and Financings
- Conclusion

District of Columbia

Introduction

District of Columbia

Presentation Participants

Office of the Mayor

The Honorable Vincent C. Gray
Mayor

Allen Lew
City Administrator

Victor Hoskins
Deputy Mayor for Planning and Economic Development

Eric Goulet
Budget Director

Council of the District of Columbia

The Honorable Kwame Brown
Council Chairman

The Honorable Jack Evans
Chairman, Finance and Revenue Committee

Jennifer Budoff
Council Budget Director

Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

Lasana K. Mack
Deputy CFO and Treasurer, Office of Finance and Treasury

Gordon McDonald
Deputy CFO, Office of Budget and Planning

Tony Pompa
Deputy CFO and Comptroller, Office of Financial Operations and Systems

Fitzroy Lee
Deputy CFO and Chief Economist, Office of Revenue Analysis

Marcy Edwards
Senior Financial Policy Advisor, Office of the CFO

Stephen Lyons
Deputy General Counsel, Office of the CFO

Financial Advisors

William W. Cobbs and Claire Cohen, *Public Resources Advisory Group*

Michael Jones, *Phoenix Capital Partners*

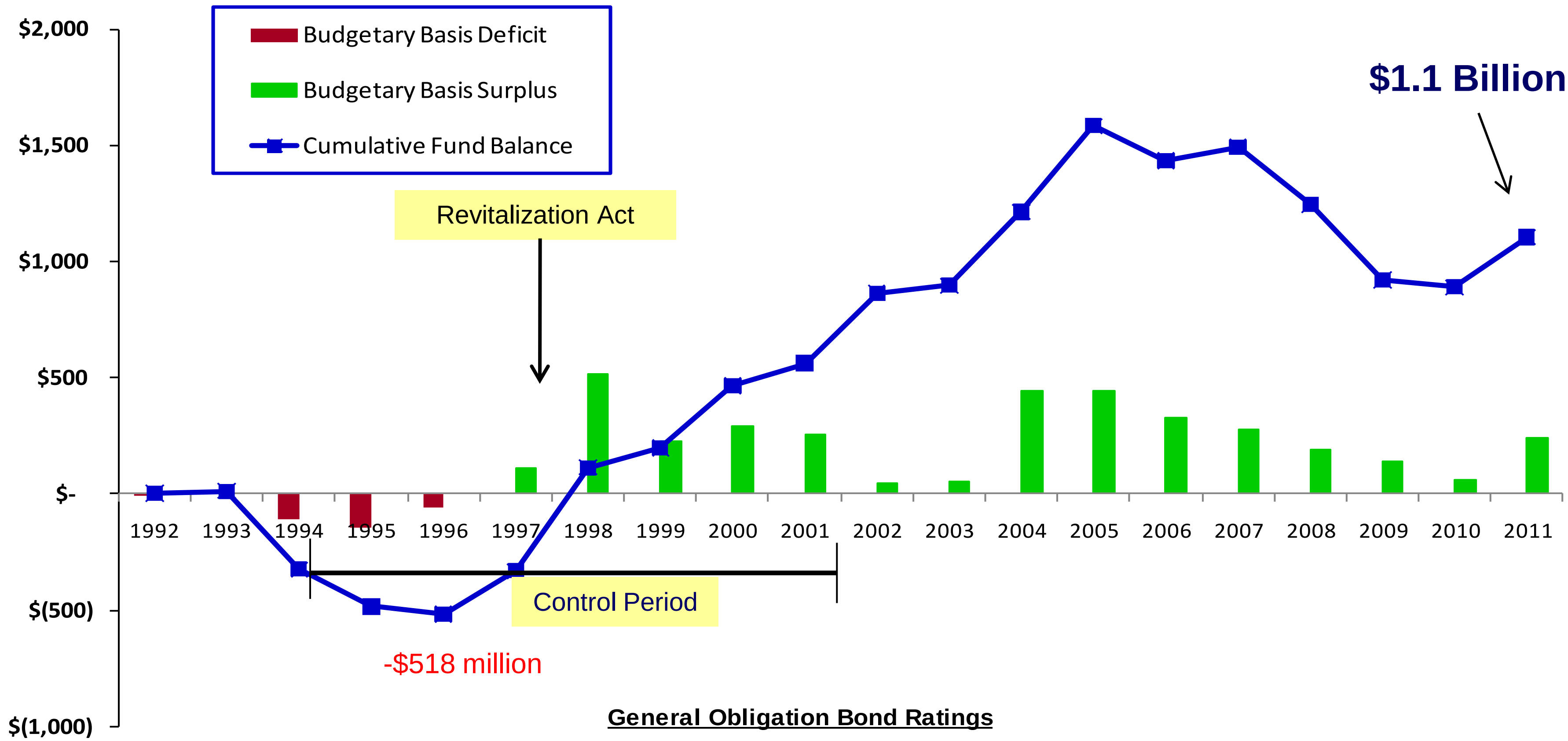
District of Columbia

Introduction

- The District has performed well during the economic downturn and is well-positioned to respond to the challenging economic times ahead.
- The FY 2011 CAFR results show an increase in General Fund balance to $1.1 billion, with $194 million deposited in the new Fiscal Stabilization and Cash Flow reserve accounts.
- The Administration and Council leadership support continuing to re-build the fund balance.
- The District is committed to limiting current year spending to current year revenues.
- Financial challenges are manageable.
- Debt remains within the 12% Debt Limit law.
- Independent Chief Financial Officer by Federal Law:
  - Certifies budgets;
  - Estimates revenues;
  - Ensures that operations are balanced;
  - Monitors revenues and spending throughout the year; and
  - Coordinates issuance of debt and affirms debt cap compliance.

District of Columbia

District of Columbia
Surplus and Bond Rating History



General Obligation Bond Ratings

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
S&P:	A-	A-	A-	BBB-	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A	A+	A+	A+	A+	A+	A+	A+
Moody's:	Baa	Baa	Baa	Ba	Ba	Ba2	Ba1	Ba1	Baa3	Baa3	Baa1	Baa1	A2	A2	A2	A1	A1	Aa2	Aa2	Aa2
Fitch:		A-	BBB+	BB	BB	BB	BB+	BB+	BBB	BBB	BBB+	A-	A-	A	A	A+	A+	AA-	AA-	AA-

Income Tax Secured Revenue Bonds: S&P: AAA Moody's: Aa1 Fitch: AA+

District of Columbia

FY 2011
Comprehensive Annual Financial Report

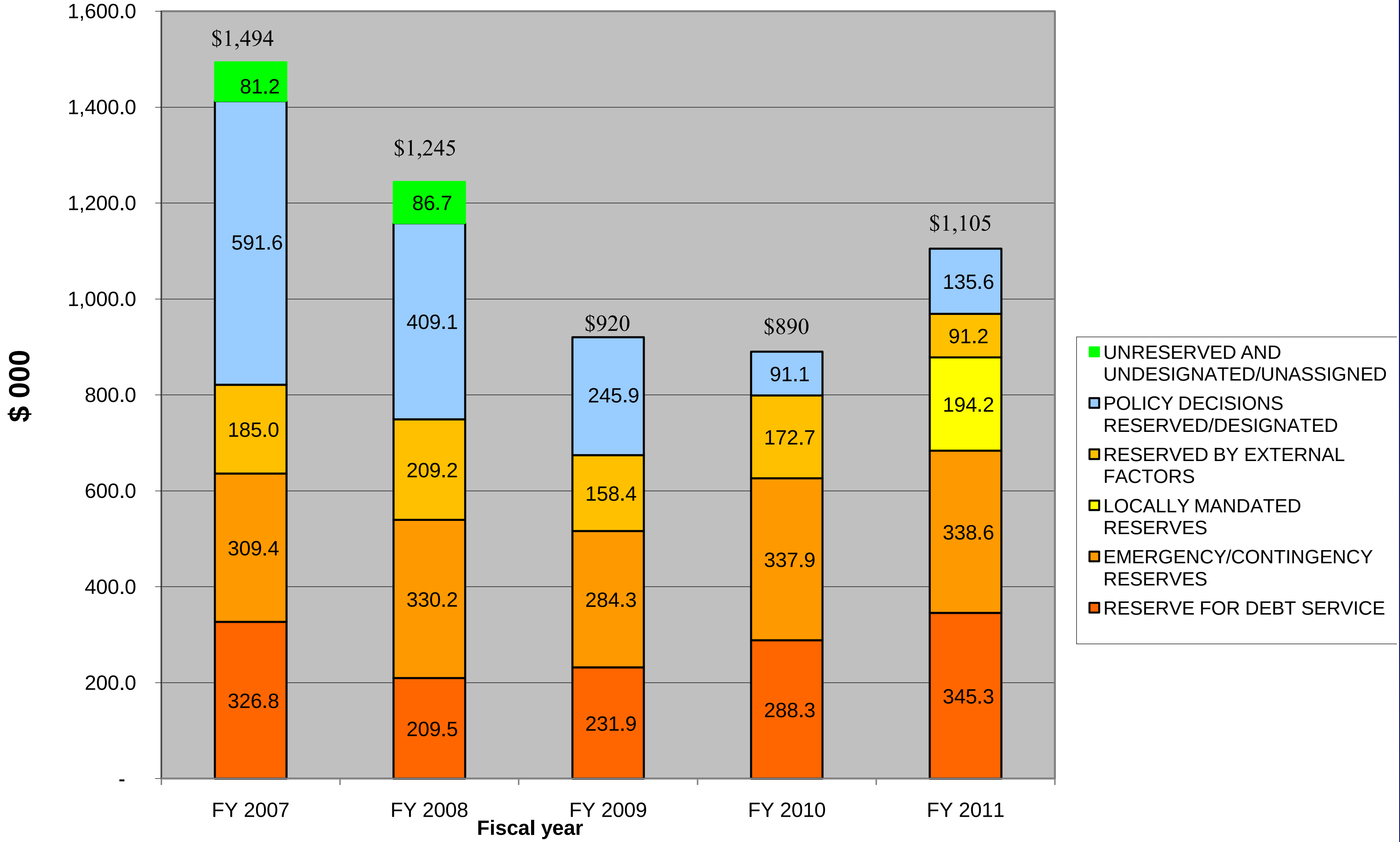
District of Columbia

FY 2011 CAFR Highlights

- **General Fund revenues and sources exceeded expenditures by $240 million on a budgetary basis**
  - *Revenues other than fund balance 4.1% above original estimate (the basis of the "original" budget) and 2.3% above revised estimate*
  - *Expenditures 2.4% below revised budget*
- **$1.1 Billion Cumulative General Fund Balance**
  - *Increase of $215 million over FY 2010 fund balance*
  - *$1.6 billion above lowest level of -$518 million in FY 1996 during Control period*

District of Columbia

Composition of General Fund Balance FY 2007 – FY 2011
($ in millions)



District of Columbia

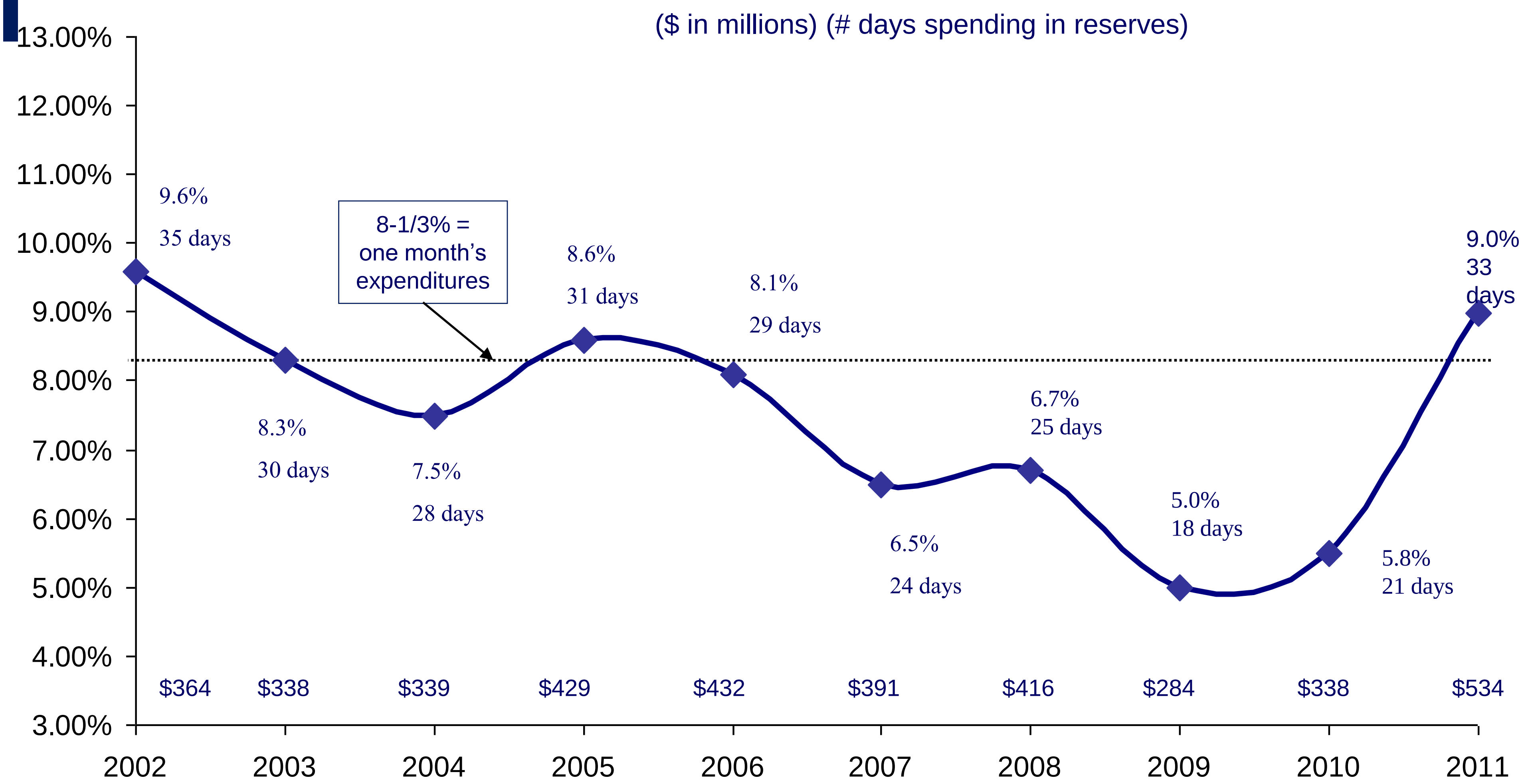
Details of Change in General Fund Balance FY 2010 to FY 2011

FY 2010 General fund balance in FY2010 CAFR:	**$ 890,126**
Adjustment for recognition of personal property tax:	$ 40,643
ADJUSTED FY2010 General Fund balance:	**$ 930,769**
Plus: FY 2011 Revenues and Sources:	$ 6,302,894
Less: FY 2011 Expenditures and Uses:	$ 6,066,467
Excess of Revenues and Sources over Expenditures and Uses (Budgetary Surplus):	**$ 236,427**
Fund Balance released:	**$ (52,500)**
Net GAAP reconcilation adjustments (below the line):	**$ (9,766)**
FY 2011 General fund balance:	**$ 1,104,930**

District of Columbia

Total Working Capital

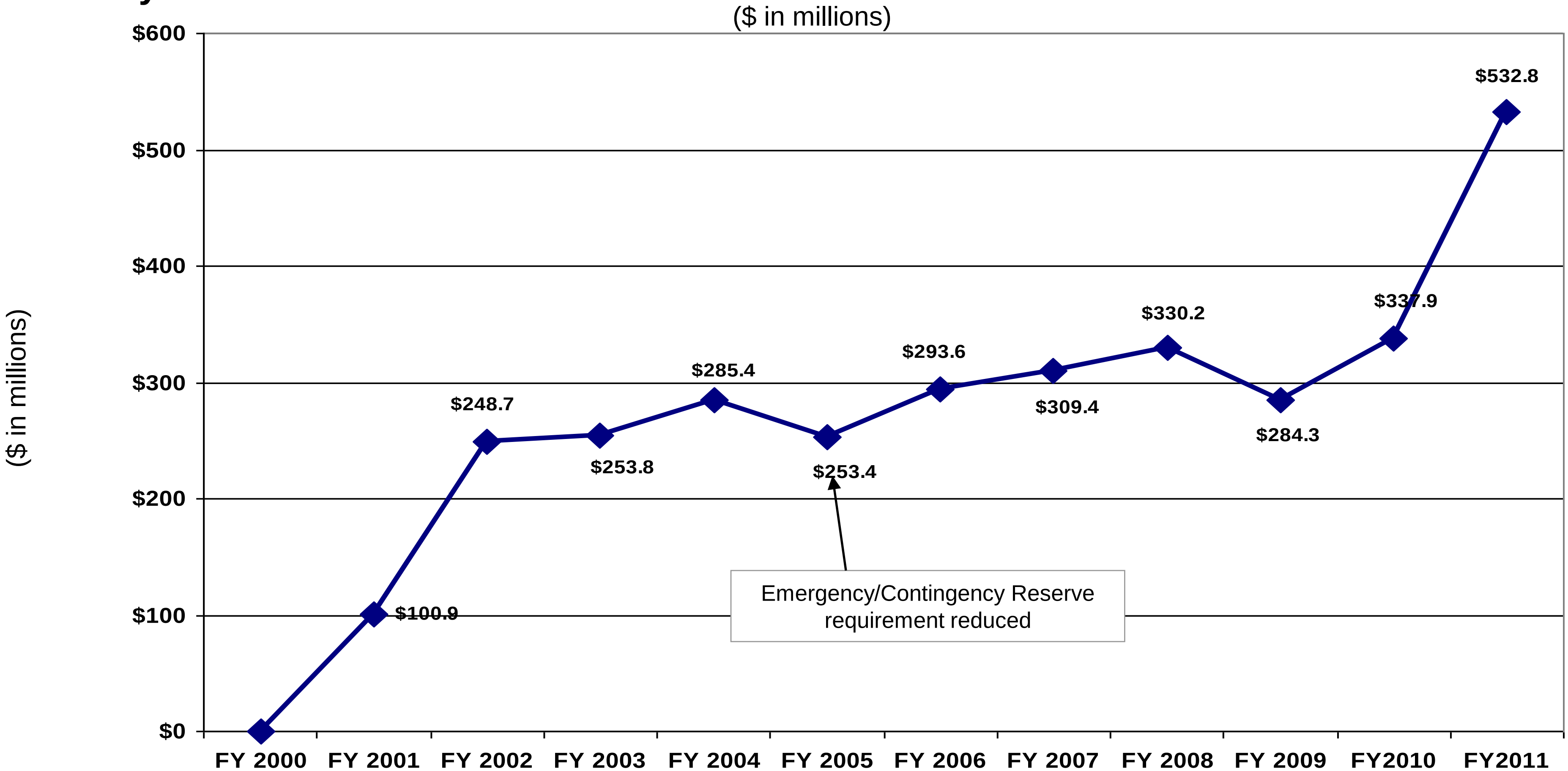
Unassigned Fund Balance, Congressionally Mandated Emergency/Contingency Reserves and Locally Mandated Reserves as % of Next Year's Budgetary Expenditures



District of Columbia

Rainy Day Funds

Congressionally Mandated Emergency (2%) / Contingency (4%) Cash Reserves Plus Locally Mandated Fiscal Stabilization and Cash Flow Reserves



Economic Update

District of Columbia

Impact of Federal Sequestration on DC Economy and Revenue

Federal government is a key driver of the DC economy

- There are about 210,000 federal civilian employees in DC, accounting for about 29% of all wage and salary employment in DC and 35% of the wages and salaries paid in the city.
- An estimated 45,000 DC residents are employed by the federal government, representing about 15% of all employed DC residents.
- In FY 2010 the Federal government spent a total of $62 billion in DC in salaries and wages, procurement, grants, retirement and other benefits, and other direct payments, about 60% of DC's gross state product. In comparison, federal spending is about 33% of gross state product in MD and 32% in VA.

Given the District's exposure to federal spending and employment, its economy and revenue will be seriously impacted by federal sequestration

- According to an analysis by the Bipartisan Policy Center, the sequester provision, should it be implemented in its current form, would result in an 8.5% reduction in federal defense and non-defense discretionary spending.
- The decrease in federal employment will affect income tax withholding and sales taxes almost immediately. In FY 2014, the cuts in procurement will affect corporate income and deed taxes.
- **Under this scenario federal sequestration would reduce the District's revenue by an estimated $47 million in FY 2013, $86 million in FY 2014 and $93 million in FY 2015.**

District of Columbia

Current State of the District's Economy

OVERVIEW: The District's economy is now making its way between slowing on the federal side and modest growth on the private sector side.

Labor Markets and Personal Income

- December showed some marginal improvement in the District's labor market.
- The District's unemployment rate for December fell from 10.6 percent last month to 10.4 percent, and resident employment was 0.1 percent higher.
- Private sector employment gain of 1.2% more than offset the -0.8% loss in the federal sector.

Commercial Office Market

- In the quarter ending December, occupied office space rose by 1.0% from the prior year. At the same time, the commercial office vacancy rate fell to 8.4% (including sublet), still well below the metropolitan area average of 12.1%.

Housing

- Growth in housing has slowed in recent months.
- Single family sales for the 3-month period ending December 2011 were down 14.3% from a year ago, and the average selling price was 6.3% lower.
- Condominium sales were up 3.5%, but average prices were 2.5% lower.

Hospitality Industry

- The hospitality sector has picked up recently.
- For the 3-month period ending December, the average room-rate for hotels was 1.2% lower than for the same period a year earlier.
- However, the number of hotel room-days sold was up 7.0% from a year earlier and revenues from room sales were up 5.7%.

District of Columbia

After several decades of decline the District's population is growing once again

- According to the US Census Bureau, DC's population on July 1, 2011 was 617,996--13,084 (2.2%) more than a year earlier.

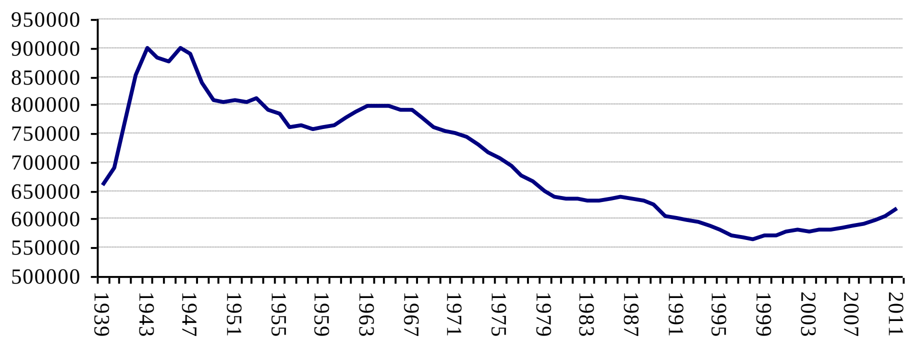
- D.C.'s population declined steadily from the end of World War II to 1998 (except for a brief period in the early 1960s). Since then, the population has grown every year but one (2003), increasing by 52,766 (9.3%) over the last 13 years.

- 2011 increase of 13,084 was the biggest one year increase since 1946 (The only year that came close was the 13,000 gain in in 1960.)

- Compared to all 50 states, DC had the highest population growth rate in 2011. The rate, 2.2%, was much higher than the next highest, Texas, at 1.7%, and the US average of 0.7%.

- For the past 5 years the gain has averaged 6,800 (1.1%) per year.

Population and Wage and Salary Employment located in DC: 1939 to 2011
(calendar years)



D.C. population: 2007 to 2011

		change from prior year	
year	number	number	%
2007	586,409	2,431	0.4
2008	590,074	3,665	0.6
2009	599,657	9,583	1.6
2010	604,912	5,255	0.9
2011	617,996	13,084	2.2

Source: U.S. Bureau of the Census

District of Columbia

Summary of December 2011 Revenue Estimate

($ in millions)

	Actual	Estimate		Projected	
Local Source, General Fund Revenue Estimate ($ millions)	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
September 2011 Forecast		**5,627.9**	**5,773.8**	**5,948.3**	**6,134.1**
Change from prior forecast		42.2	0.3	(6.0)	(36.3)
Change due to federal sequestration		-	(46.7)	(86.1)	(93.5)
Total Changes From September		***42.2***	***(46.4)***	***(92.1)***	***(129.8)***
December 2011 Revenue Estimate	**5,321.7**	**5,670.1**	**5,727.4**	**5,856.2**	**6,004.3**
Percent growth over previous year	*4.8%*	*6.5%*	*1.0%*	*2.2%*	*2.5%*

District of Columbia

Summary of Changes – Fiscal Year 2013

($ in millions)

($millions)	Estimate for FY 2013		Variance	
Revenue Source	**Sept 2011**	**Dec 2011**	**Amount**	**Percent**
Property	**2,308.8**	**2,308.5**	**(0.2)**	**0.0%**
Property (net of TIF/PILOT)	2,001.7	2,001.5	(0.2)	0.0%
Deed taxes (net of transfers to Housing Production Trust) & Estate	307.0	307.0	-	0.0%
Income	**1,817.0**	**1,810.3**	**(6.7)**	**-0.4%**
Individual Income	1,413.8	1,398.7	(15.1)	-1.1%
Withholding	*1,305.9*	*1,331.6*	25.6	2.0%
Nonwithholding	*107.9*	*67.2*	(40.7)	-37.7%
Business Income (corp. franchise and UB tax)	403.2	411.6	8.4	2.1%
Sales, excise and gross receipts	**1,195.0**	**1,149.1**	**(45.9)**	**-3.8%**
Sales (net of convention center transfer, TIF, parking tax transfer to DDOT, ballpark sales tax) and Excise	943.7	897.6	(46.1)	-4.9%
Gross receipts (net of transfers)	251.3	251.5	0.2	0.1%
Non-tax and Lottery	**453.0**	**459.5**	**6.5**	**1.4%**
Non-tax	383.6	394.8	11.2	2.9%
Lottery	69.4	64.7	(4.7)	-6.8%
Total	**5,773.8**	**5,727.4**	**(46.4)**	**-0.8%**

District of Columbia

FY 2012 Budget and Spending Pressures

District of Columbia

FY 2011 vs. FY 2012 Budget - Local Funds and Dedicated Taxes ($ in thousands)

FY 2011 Actual vs. FY 2012 Proposed Budget - Local Funds and Dedicated Taxes ($ in thousands)

		FY 2011 Actual	FY 2012 Approved	$ Change	% Change
1	**Revenues**				
2	Taxes	$ 5,203,168	$ 5,542,474	$ 339,306	6.5%
3	General Purpose Non-Tax Revenues	421,542	414,011	(7,531)	-1.8%
4	Transfer from Lottery	62,175	68,707	6,532	10.5%
6	**Sub-total, Local and Dedicated Fund Revenues**	**$ 5,686,885**	**$ 6,025,192**	**$ 338,307**	**5.9%**
7	Bond proceeds for Issuance Costs	6,320	6,000	(320)	-5.1%
8	Transfer from Federal and Private Resources	1,370	3,497	2,127	n/a
9	Interfund transfers between Local, Dedicated Taxes and O-type Special Purpose Fund		(26,037)	(26,037)	n/a
10	Transfer from Special Revenue Funds	79,242	5,196	(74,046)	-93.4%
11	Fund Balance Use	42,229	31,946	(10,283)	-24.4%
12	Revenue Proposals - - misc.	0	0	0	n/a
13	**Total Local and Dedicated Taxes Fund Resources**	**$ 5,816,046**	**$ 6,045,794**	**$ 229,748**	**4.0%**
14					
15	**Expenditures (by Appropriation Title)**				
16	Governmental Direction and Support	393,979	492,108	$ 98,129	24.9%
17	Economic Development and Regulation	108,883	97,681	(11,202)	-10.3%
18	Public Safety and Justice	922,834	926,655	3,821	0.4%
19	Public Education System	1,492,287	1,534,238	41,951	2.8%
20	Human Support Services	1,437,862	1,553,149	115,287	8.0%
21	Public Works	403,412	452,195	48,783	12.1%
22	Financing and Other	522,334	573,480	51,146	9.8%
23	Bond Issuance Costs	5,885	6,000	115	2.0%
24	**Sub-total, Operating Expenditures**	**5,287,476**	**5,635,507**	**348,031**	**6.6%**
25	Paygo Capital	18,683	0	(18,683)	-100.0%
26	Transfer to Trust Fund for Post-Employment Benefits	94,200	109,800	15,600	16.6%
27	Repay Contingency Reserve Fund	0	3,000	3,000	n/a
28	Transfer to Enterprise Funds - HPTF Special Revenue Fund & Baseball Revenue Fund	64,354	80,654	16,300	25.3%
29	Transfer to TIF/CBF, Convention Center and Highway Trust Fund	185,099	186,824	1,725	0.9%
31	**Total Local and Dedicated Taxes Fund Expenditures and Transfers**	**$ 5,649,812**	**$ 6,015,785**	**$ 365,973**	**6.5%**
32	**Cash Flow Reserve Account**	**0**	**28,702**	**28,702**	n/a
33	**Fiscal Stabilization Reserve Account**	**0**	**451**	**451**	n/a
34	**Operating Margin, Budget Basis**	**$ 166,234**	**$ 857**	**$ (165,377)**	**-99.5%**

District of Columbia

Budget Pressures and Policy Initiatives History

Budget Pressure and Policy Initiatives History
Local Funds, Including Dedicated Taxes
Fiscal Years 2001 - 2012
($ in millions)
As of January 23, 2012

Description	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012 (As of 01/23/2012)	Average, FY 2001 - FY 2011
Spending Pressures & Policy Initiatives (1)	$ 383.0	$ 306.0	$ 175.0	$ 206.1	$ 167.6	$ 177.5	$ 184.5	$ 217.6	$ 222.0	$ 209.7	$ 147.4	$ 44.7	$ 203.4
Revenue Shortfalls	-	96.0	376.0	-	-	-	-	-	136.0	80.2	118.5	-	67.2
Total, Pressures	**$ 383.0**	**$ 402.0**	**$ 551.0**	**$ 206.1**	**$ 167.6**	**$ 177.5**	**$ 184.5**	**$ 217.6**	**$ 358.0**	**$ 289.9**	**$ 265.9**	**$ 44.7**	**$ 291.2**
Approved Budget, Local Including Dedicated Taxes (2)	3,503.0	3,705.0	3,715.0	3,833.0	4,165.5	4,949.5	5,186.2	5,767.8	5,619.9	5,346.5	5,624.5	6,015.3	4,674.2
Spending Pressures & Policy Initiatives as % of total budget pressures	10.9%	8.3%	4.7%	5.4%	4.0%	3.6%	3.6%	3.8%	4.0%	3.9%	2.6%	0.7%	4.4%
Revenue Shortfalls as % of total budget pressures	0.0%	2.6%	10.1%	0.0%	0.0%	0.0%	0.0%	0.0%	2.4%	1.5%	2.1%	0.0%	1.4%
Pressures and Initiatives as % of Appropriations	10.9%	10.9%	14.8%	5.4%	4.0%	3.6%	3.6%	3.8%	6.4%	5.4%	4.7%	0.7%	6.2%

Notes:

(1). FY 2001 spending pressures include $100 million in overspending by the DC Public Schools.

(2). Congressionally Approved Budgets, Local plus Dedicated Taxes appropriated funds, GAAP General Fund 100. Includes transfers out.

District of Columbia

FY 2013 Budget Timeline

March 23	Mayor’s Budget submission to Council
May 15	Council vote to approve Budget
June	Budget and Financial Plan is sent to the President for transmittal to Congress

Hospital Update

District of Columbia

United Medical Center (UMC)

- The District acquired UMC (hospital, skilled nursing facility and medical buildings) on 7/9/10 by foreclosure.
- Foreclosure wiped out most prior liabilities, but the Hospital recognized some (approximately $2.5 million). Created independent instrumentality to insulate the District government from liability.
- Medicaid Disproportionate Share Hospital (DSH) payments increased to $14.9 million in 2011 fiscal year. DSH payments (and Medicaid DRGs) are expected to remain essentially unchanged in FY 2012.
- Audited FY 2011 excess of revenues over expenditures were $2.5 million
- In FY 2011, the Hospital drew $3.9 million from its District-provided cash reserve, leaving $900,000.
- The Hospital Board of Directors voted to accept the recommendation of RSM McGladrey, Inc. to move the Hospital to an ambulatory and physician centric focus with reduced acute inpatient services, and will present an action plan to the Mayor in 90 days with the ultimate goal of transferring the Hospital from District ownership.
- Forthcoming KPMG audits to begin now that the CAFR is finished:

  January 1 - July 8, 2010

  January 1, 2009 - December 31, 2009

District of Columbia

Debt Position and Financings

Key Debt Factors

Current Indebtedness

- Total tax-supported debt outstanding – approximately $8.31 billion
- Total GO Bonds outstanding - approximately $2.69 billion
- Total Income Tax Bonds outstanding - approximately $3.58 billion
- FY 2011 debt service costs approximately $625.23 million (on all tax-supported debt)
- The Home Rule Act limits maximum annual debt service on General Obligation Bonds to 17% of projected revenues in the current year
- In 2009, the Council enacted a Debt Ceiling Act which statutorily limits all debt service on all tax-supported debt to 12% of General Fund expenditures, imposing much stricter limit on the issuance of debt
  - The District's currently outstanding $8.31 billion of tax-supported debt produces a debt ceiling percentage of 9.98%
- Average FY 2011 interest rate for outstanding GO and Income Tax Secured fixed rate bonds - approx. 5.03%
- Average FY 2011 interest rate for outstanding GO and Income Tax Secured variable rate bonds - approx. 0.27%

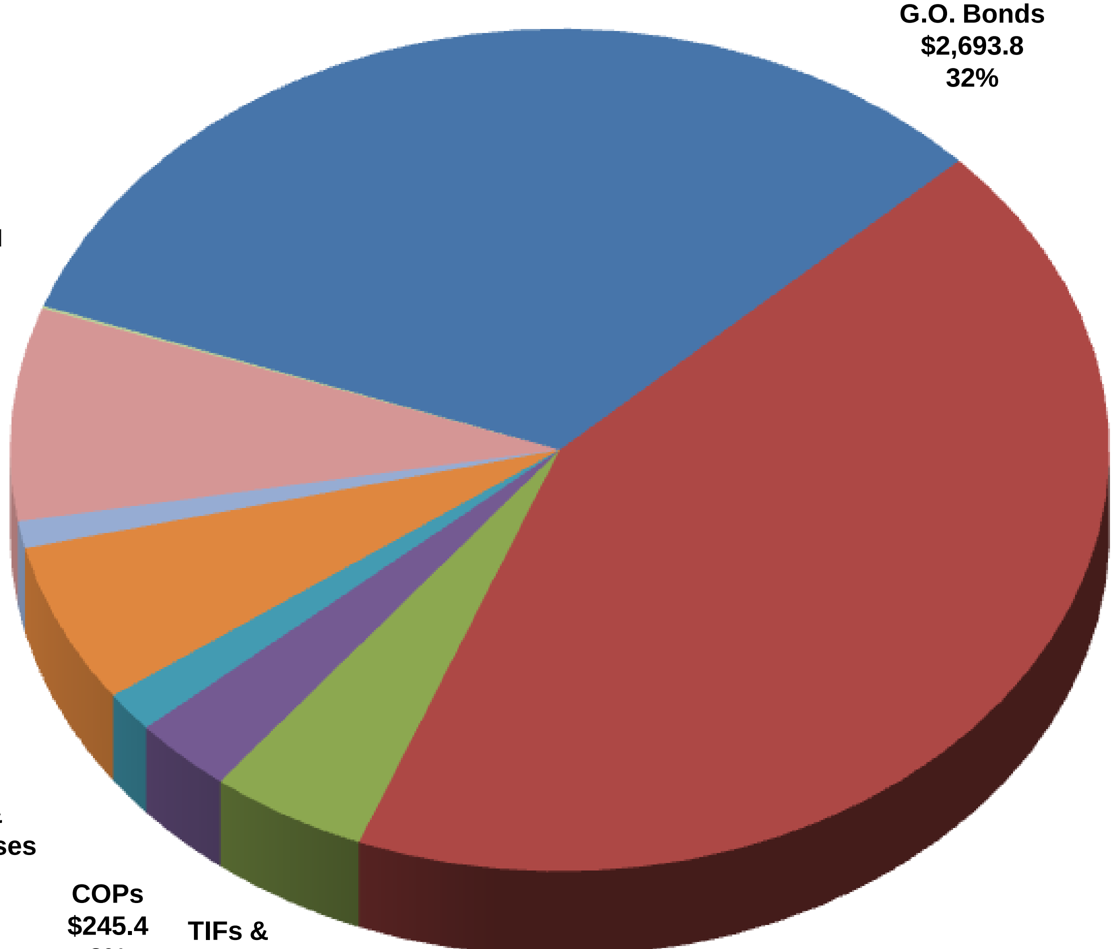
District of Columbia

Current Tax-Supported Debt Profile

The District Currently Has $8.3 Billion of Tax-Supported Debt Outstanding as of December 2011

Dollars in millions

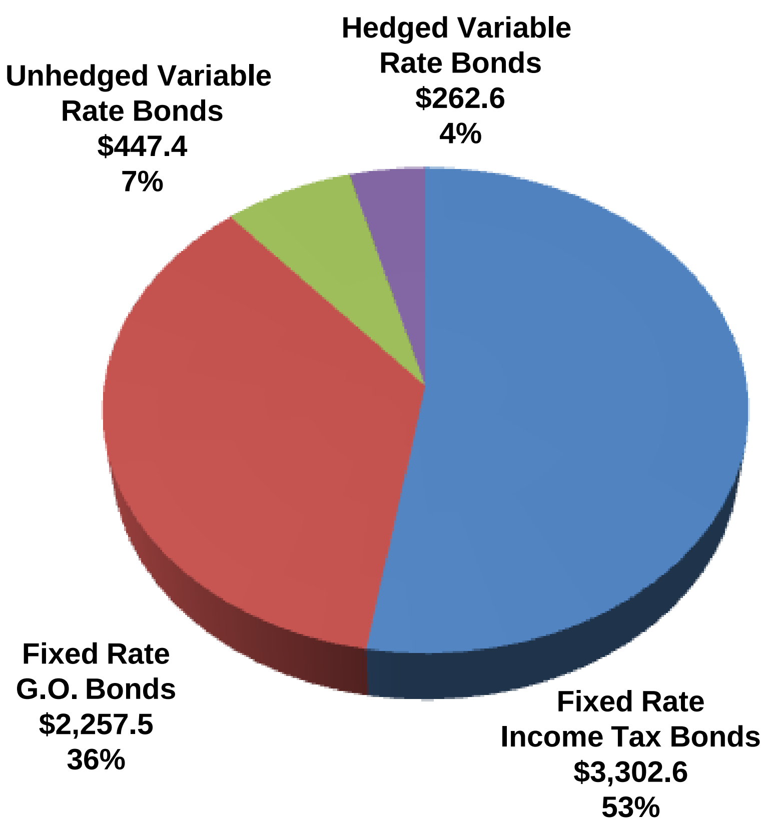
Note: QZAB Makes Up $8.6mm (0.1%) of the District's Tax-Supported Debt Outstanding



District of Columbia Current Debt Profile

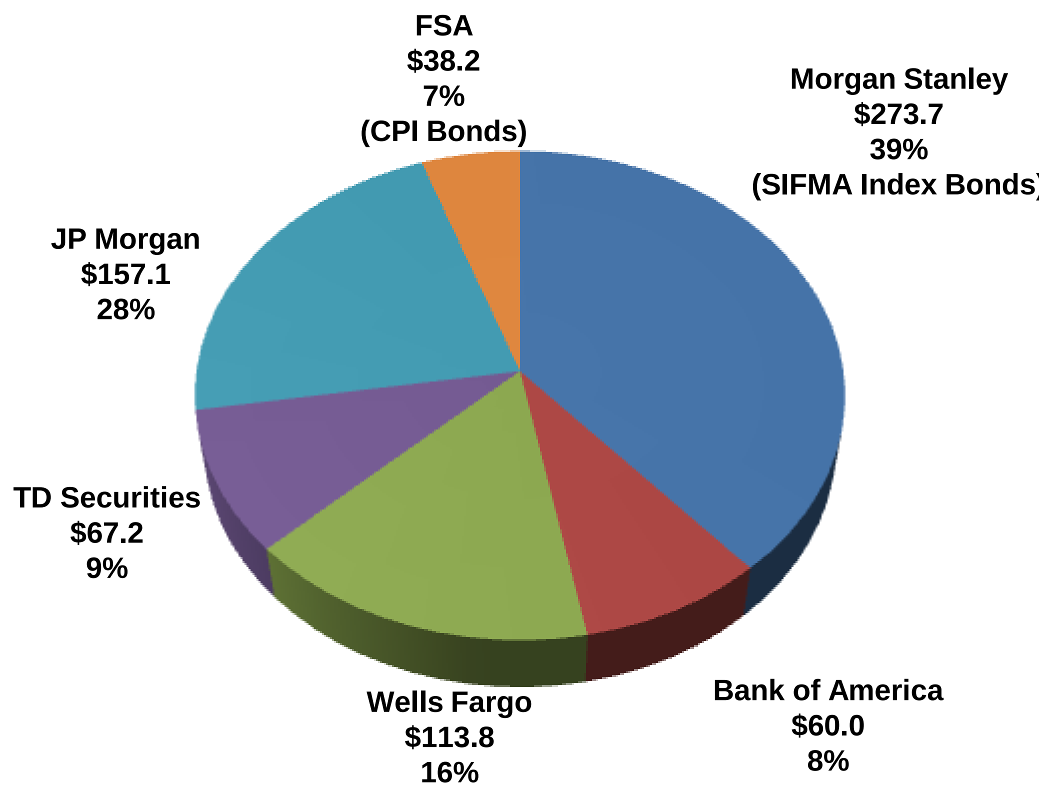
$6.3 billion
Total G.O. and Income Tax Debt Outstanding

Dollars in millions



$709.9 million
Variable Rate Debt Outstanding
Credit Enhancement Structure

Dollars in millions



District of Columbia

Capital Improvements Plan: FY 2012 – FY 2017

- District's Capital Improvements Plan (CIP) is a responsible mix of debt, Paygo capital, and grant funding
- Plan calls for funding of $4.7 billion total over six-year period

Fiscal Year 2012 - 2017 Capital Improvements Plan Funding
(Budgetary Basis)
($000s)

FY 2012 - FY 2017 Planned Funding Sources (excludes Highway Trust Fund)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 12-FY 17 Total
General Obligation/Income Tax Bonds	$580,782	$522,947	$493,184	$467,794	$428,129	$365,691	$2,858,527
Master Equipment Lease/Purchase	45,000	26,500	16,000	14,406	27,425	16,338	145,669
Pay-As-You-Go	5,800	53,202	98,108	139,834	178,415	217,960	693,319
Local Streets Transportation Fund Revenue	27,098	29,608	28,572	28,325	28,325	18,103	160,031
GARVEE Bonds	-	50,000	-	-	-	-	50,000
Qualified Energy Construction Bonds (QECB)	6,140	-	-	-	-	-	6,140
Federal Grants	143,249	133,249	140,249	133,249	133,249	133,249	816,494
Total Funding	**$808,069**	**$815,506**	**$776,113**	**$783,608**	**$795,543**	**$751,341**	**$4,730,180**

District of Columbia

Variable-Rate Debt Exposure

- The District has reduced its exposure to variable-rate debt to 10.2% of total tax-supported debt, down from approximately 24% in 2008 (percentages include both unhedged and hedged variable-rate debt).
  - Unhedged variable-rate debt is approximately 5.7% of total tax-supported debt
  - Hedged variable-rate debt is approximately 4.5% of total tax-supported debt
- The District still believes that it is prudent to have some variable-rate debt (not more than 10% unhedged and not more than 20% total), to allow for some degree of asset-liability matching and to take advantage of extremely low short-term interest rates.
- The District has diversified its variable-rate debt portfolio, with Variable Rate Demand Obligations, SIFMA-Indexed Notes, and Direct-Purchase Notes.
- The District is well-positioned to handle its maturing short-term instruments and facilities over the next few years, utilizing a strategy of diversification.

District of Columbia

Current Debt Cap Position

($ in millions)

Expected future Borrowing will remain Under Debt Cap

Summary of Debt Cap Position as of December 31, 2011
($ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Total Debt Service on Existing & Planned Tax Supported Debt	$ 647.0	$ 704.5	$ 754.2	$ 778.0	$ 803.3	$ 829.4
General Fund Expenditures	$ 6,480.3	$ 6,546.8	$ 6,718.7	$ 6,868.5	$ 7,040.2	$ 7,216.2
Ratio of Debt Service to Expenditures	9.98%	10.76%	11.22%	11.33%	11.41%	11.49%

FY 2012 Financings

- **Completed Transactions**
  - $820 million FY 2012 TRANs
  - $241.7 million Income Tax Secured Refunding SIFMA Index Bonds, Series 2011B-C-D-E (Refunding of G.O. Series 2003A-B)
  - $38.7 million TIF Bonds (City Market at O Street), Series 2011
  - $400.7 million new-money Income Tax Secured Bonds, Series 2011F-G

- **Anticipated Transactions***
  - Housing Production Trust Fund (HPTF) Bonds - $40 million
  - TIF Refunding of 2002 Gallery Place Bonds - $60 million
  - Energy Conservation Bonds – Structure and Amount TBD
  - Possible refunding of GO bonds with Income Tax bonds – TBD

* Preliminary/Subject to Change

District of Columbia

Conclusion

District of Columbia

Conclusion

- The District economy, although still showing effects of the recession, continues to remain stronger and more resilient than most other jurisdictions.
- The District's population is growing faster than any state – DC saw the highest one-year increase in 70 years.
- The District will continue to do what must be done in order to balance its financial operations.
- The District has a solid history of ending fiscal years in a more favorable position than originally budgeted.
- New Fiscal Stabilization and Cash Flow reserve accounts significantly increased "Rainy Day" funds, improving the District's overall financial position and providing a cushion against possible negative effects of federal sequestration, should that occur.
- Debt Cap statute provides a control on future borrowing and protects the District from greater stress on the operating side of the budget.
- Office of the CFO will continue to monitor revenue collections and spending throughout each fiscal year to ensure that balance is maintained.