GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER

CAFR 2011

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2011

VINCENT C. GRAY • MAYOR
NATWAR M. GANDHI • CHIEF FINANCIAL OFFICER

INTRODUCTORY SECTION

Government of the District of Columbia

★★★

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January 25, 2012

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, 2011, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with District management and the Office of the Chief Financial Officer. 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 state and local governments as promulgated by the Governmental Accounting Standards Board (GASB) and includes all disclosures necessary for readers to gain an understanding of the District's financial activities.

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, effected by an entity's governing board, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in 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 about whether the financial statements are free of material misstatement. 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 assess, on an on-going basis, the adequacy of the District's internal controls. In accordance with D.C. Code Section 47-119, an independent auditor audited the District's financial statements for the year ended September 30, 2011. 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, KPMG LLP, also prepared a report, which was issued in conjunction with the CAFR, that discussed 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 related requirements. This report is commonly referred to as the Yellow Book Report.

Moreover, an audit of compliance with the Federal Single Audit Act Amendments of 1996 and the related OMB Circular A-133 is also performed annually and a separate report, often referred to as the Single Audit Report, is issued by the independent auditors. The District's fiscal year 2011 Single Audit Report will be issued at a later date.

GASB Statement No. 34 requires management to provide a narrative introductory overview and analysis (termed management's discussion and analysis (MD&A)) to accompany the basic financial statements. 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. (the District of Columbia) in 1791 from territory ceded by the State of Maryland and the Commonwealth of 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.

Significant dates in the history of the District of Columbia are presented in the timeline shown in **Table 1**.

Table 1 – Timeline: Key Dates in the History of the District of Columbia

February 1801	Congress enacted the Organic Act of 1801, thereby dividing the capital district into Washington County (former Maryland area) and Alexandria County (former Virginia area).
1846	Congress passed a law allowing the City of Alexandria and Alexandria County to be returned to the Commonwealth of Virginia.
1871	Congress consolidated Georgetown, Washington City, and Washington County into one territorial government. The President appointed a territorial governor and council and an elected House of Delegates. A non-voting delegate to Congress was also established.
1874	The territorial government of the District of Columbia was abolished and the non-voting delegate to Congress was eliminated.
1878	The power to elect a territorial governor and council was eliminated. Congress established a three-member Board of Commissioners to govern the District of Columbia. This form of governance lasted for almost 100 years.
1961	The 23rd Amendment to the U.S. Constitution was ratified. Citizens of the District of Columbia were granted the right to vote in a presidential election.
1967	President Lyndon B. Johnson appointed Walter E. Washington Mayor of the District of Columbia.
1970	Congress passed the District of Columbia Delegate Act.
1971	Walter Fauntroy became the first Congressional Delegate to represent the District of Columbia.
1973	Congress passed the District of Columbia Home Rule Act, which provides for a popularly elected mayor and a 13-member Council.

Although Congress passed the Home Rule Act in 1973, Congress retained and continues to retain the right to review and overturn the legislative acts of the Council if both houses of Congress vote within 30 legislative days to do so. In addition, 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, other tax-exempt property 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. 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), which totaled $150 million.

Although progress has been made on many fronts throughout the city's history, District of Columbia residents still do not have voting representation in Congress. However, 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 on behalf of the District of Columbia. Some of her recent major accomplishments include the following:

- Launched inter-city bus service from the District's Union Station as part of efforts to transform Union Station into a model inter-modal transportation center. The Congresswoman insisted that intercity bus service begin on Union Station's existing upper bus deck in advance of the years of work necessary to create a new intercity bus terminal. In addition, the Congresswoman continues to pursue additional opportunities for bringing more low-cost intercity bus service to the District.

- Took measures to ensure that the District would receive two Presidential Disaster Declarations following the record snowstorms in the winter of 2010. Consequently, the District received two federal public assistance grants totaling $7,703,425 for the cost of responding to the December 2010 and February 2011 snowstorms that crippled the region. Congresswoman Norton also secured $1.5 million to repair the damage done to the RFK Stadium parking lot and $1 million for the Washington Metropolitan Area Transit Authority for labor and equipment used to shovel platforms and pedestrian areas, plow lots and clear walkways.

- Developed and opened an Opportunities Center on the Department of Homeland Security (DHS) headquarters construction site located on the St. Elizabeth's campus in the District's Ward 8. The Opportunities Center was created through the collaborative efforts of the General Services Administration, Clark Construction, and the Congresswoman to give District residents the first job opportunities and small business contracts stemming from this major construction project. Workshops for small and minority-owned businesses are held regularly at the Opportunities Center.

  During fiscal year 2011, the DHS headquarters construction progressed from breaking ground to initial hiring. Much of the work thus far has been hauling away dirt and rocks to make room for the massive U.S. Coast Guard headquarters. Approximately 70 percent of the drivers doing this work are District residents. Further, 89 District businesses have been subcontracted, with 17 from Ward 8. The project is expected to generate 38,000 construction-related jobs and 14,000 additional permanent federal jobs.

- Secured $20 million for the 10-Year Anacostia River Clean-Up Plan and $20 million for the D.C. Water and Sewer Authority to tackle the District's combined sewer overflow that pollutes the Anacostia River.

- Worked with the National Park Service and the District government to transfer ownership of 15 acres of land at Fort Dupont Park, where the District and the Washington Nationals will provide underserved children with a baseball academy.

- Introduced a bill to permanently authorize the D.C. National Guard Tuition Assistance Program, a program to assist D.C. Guard members with paying for college education expenses and secured $375,000 for this effort in FY 2010.

For more information on the initiatives, activities and accomplishments of the D.C. Delegate, visit Congresswoman Eleanor Holmes Norton's website at 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, University of the District of Columbia, Washington Convention and Sports Authority, Water and Sewer Authority, and the Not-For-Profit Hospital Corporation (d/b/a the United Medical Center); 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 the component units 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 Nonmajor Proprietary Fund is used to account for the operations of J.B. Johnson Nursing Center (J.B. Johnson). Prior to fiscal year 2011, J.B. Johnson was managed by a long-term care management company under a contract awarded by the District's Office on Aging. During fiscal year 2010, the District decided to lease the facility to a private entity upon expiration of the management contract on October 20, 2010. As of December 13, 2010, J.B. Johnson was dissolved by the District. The former management company entered into a 20-year ground lease agreement with the District, effective December 14, 2010, to occupy and use the building, land, and improvements thereon. The leased premises are to be used for the operation of a long-term care nursing home facility and for related nursing home services. Further information on the Basis of Presentation can be found on pages 58 through 60 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. On or about March 20 of each year, consistent with Section 442 of the Home Rule Act, 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 (including a multi-year capital improvement plan by project for all District agencies) through passage of a Budget Request Act. 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 then to Congress for approval. Congress 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 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 established in the system of record is then reconciled to the levels of funding authorized by the Appropriations Act. In addition, on an annual basis, independent auditors review the budgetary comparison statement to ensure compliance with federally approved amounts and to determine whether 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% or $1 million, 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 later 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 submit jointly a monthly spending plan for the fiscal year to the District's 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 assess 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 financial 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, Special Revenue Fund, or the fund for Federal Payments.

Cash Reserves

Through Congressional mandate, the District is required to maintain cash reserves totaling 6% of the previous fiscal year's general fund expenditures less debt service cost. 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. A fund is a separate, distinct accounting entity that 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.

Measurement Focus and Basis of Accounting

The District's financial statements are prepared in accordance with GAAP. Accordingly, the measurement focus and basis of accounting applied in the preparation of government-wide financial statements and fund 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.

- 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.

- The budgetary basis of accounting is used to prepare the budgetary comparison statement presented in Exhibit 2-d found on page 47. This basis of accounting differs from the GAAP basis as described below:

  - ***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, an 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 included or excluded on a GAAP basis for reporting purposes. Such activities primarily include the following as reported in Exhibit 2-d found on page 47:

    1. Fund balance released from restrictions
    2. Proceeds from debt restructuring
    3. Accounts receivable allowance
    4. 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 present its budgetary comparisons as required supplementary information (RSI). The District does not have any significant budgetary perspective differences that limit its ability to present budgetary comparisons of its general fund. The District's *Budgetary Comparison Statement* is presented as part of the basic financial statements in Exhibit 2-d beginning on page 47.

  - ***Timing Differences*** – Timing differences can exist when there are significant variances between budgetary practices and GAAP, which may include continuing appropriations, project appropriations, automatic re-appropriations, and biennial budgeting. The District has no significant timing differences between its budgetary practices and its GAAP presentation of its financial statements.

Transparency in Financial Reporting

The Office of the Chief Financial Officer (OCFO) continues to promote openness in government and transparency in financial reporting. Over the last decade, the District has opened its books to the public by posting online the annual operating budget and capital plan, the comprehensive annual financial report, and the popular annual financial report. In addition, the OCFO's website provides information that allows taxpayers to review and assess the District's financial status, programs, activities and services, and determine how their tax dollars are being used. This information includes: monthly cash collection reports; debt management policy and data regarding bond issuances; monthly reviews of economic trends; other economic indicators and reports; CFO News (including press releases and Council Hearing written testimonies); and links to other useful information, such as the Taxpayer Service Center, the D.C. College Savings Plan, Unclaimed

Property Division, and the Office of Contracting and Procurement.

In fiscal year 2010, the District also launched CFOInfo, a District government OCFO financial web portal, which presents data on actual expenditures for at least the two most recent fiscal years, the current fiscal year's approved budget, and the budget for the upcoming fiscal year. Users can view data in graphical or tabular format and may create comparisons and cross tabs for more detailed analyses. Users may access data regarding operating budgets, special purpose revenue, capital budgets, and the current year financial status.

In recent years, the District broadened its efforts to be transparent in financial reporting by creating the website, www.recovery.dc.gov, which offers a wealth of information regarding the District's receipt and use of federal Stimulus funds. This website allows the general public to track the District's receipt and use of such funds (by project category and District agency) and provides information on how District residents may access the benefits associated with Stimulus funds.

To ensure accurate and consistent accounting for and reporting of Stimulus funding, the OCFO uses Stimulus 360, a web-based application that provides background information on the Act and details on how Stimulus awards are to be managed and recorded in the District's accounting system of record.

ECONOMIC CONDITION AND OUTLOOK

During fiscal year 2011 the District continued to benefit from the presence of the federal government due to both direct federal hiring and contracts. However, the boost from the federal sector became less strong as the year progressed. In fiscal year 2011, private sector job growth was also weak, unemployment among District residents continued to be high, and the growth in wage and salary earnings was slower than in fiscal year 2010. The year ended on a note of considerable uncertainty both because of national economic factors and the potential for cutbacks in federal government activities resulting from deficit reduction measures.

In general, in terms of the District's future economic outlook, the following factors have been forecasted:

- Employment gains of approximately 4,100 (0.6 percent) in fiscal year 2012 and 3,000 (0.4 percent) in fiscal year 2013.
- Unemployment rate of 9.9 percent in fiscal year 2012 and 9.6 percent in fiscal year 2013.
- Growth of wages and salaries earned in the District of 2.8 percent in fiscal year 2012 and 3.6 percent in fiscal year 2013.
- Growth of personal income of 3.6 percent in fiscal year 2012 and 3.8 percent in fiscal year 2013.
- Consistent with all indications, the District's population and the number of households will continue to grow in the next few years.

The following risks and uncertainties must be considered when forecasting the District's future economic conditions.

- The Washington metropolitan region has historically benefitted from the presence of the federal government, which is the source of jobs from both direct federal hiring and contracts. However, growth in federal employment appears to be slowing and may soon reverse. Wages have already been frozen and other reductions may be forthcoming. Proposed cuts in federal spending may adversely impact the District's economy because such reductions may reduce the federal presence in the District and the surrounding region. The District's level of vulnerability as a result of federal "cutbacks" represents a significant risk to the District's economy.
- Real property tax revenues have been relatively steady and have been used to offset declines in sales and income tax revenues in the District. However, the real property market is extremely sensitive to financial sector disruptions. The credit freeze after the collapse of Lehman Brothers had an immediate impact on property markets and a major failure in Europe may have a similar outcome. In addition, the weakness in private sector employment warns of diminishing demand for office space, particularly in developments on the District's Waterfront and in the North of Massachusetts Avenue (NoMa) area.
- There have been few gains in some of the higher wage portions of the District's private sector. For example, although more professional and technical employees were working in the District in July 2011 than in the prior year, the level of employment remains below the level before the recession began in December 2007.
- The slow-down in District employment and rising unemployment that have occurred since the spring of 2011 indicate that the District's economy has lost momentum. It is difficult to determine whether this represents a temporary pause. In addition, it is not clear which sectors will lead the District's economy if federal employment stops growing.

Key Factors in the District's Economy

Population

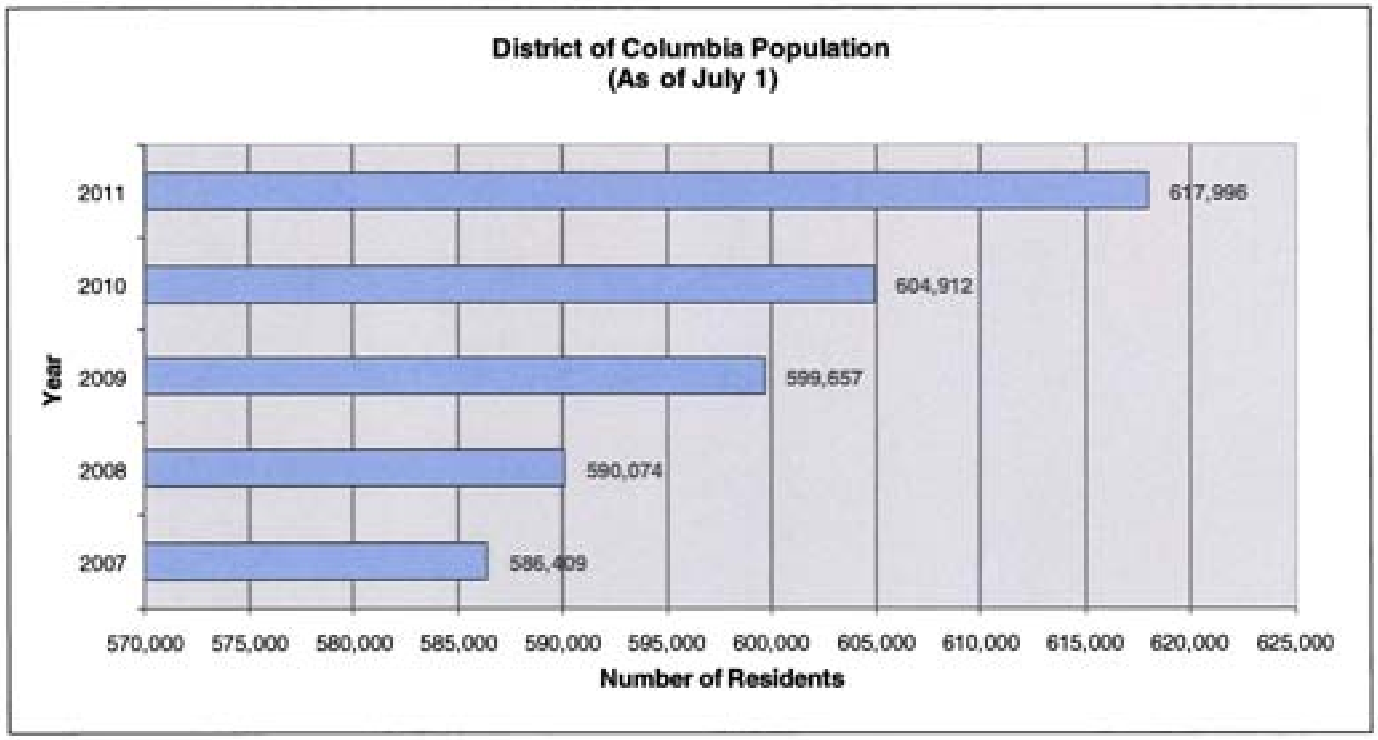
The U.S. Census Bureau estimated that there were 617,996 residents in Washington, D.C., as of July 1, 2011. This represents an increase of 13,084, or 2.2%, from the revised July 1, 2010 estimate of 604,912. Annual census estimates are based on birth and death records, changes in tax return filings, and estimates of the number of immigrants who move into the District each year. **Chart 1** presents the District's population trends for calendar years 2007 through 2011.

Income Trends

Income has grown considerably in the District in recent years. From the third quarter of 2007 to the third quarter of 2011, personal income grew approximately 17.2% in the District as compared to 8.5% nationally.

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. Median household income data is not yet available for 2011; however, for the two-year period 2009 and 2010, the District's median household income of $58,526 was 14.3% above the U.S. average. The Census Bureau estimates that 18.7% of the District's population was below the poverty line in 2010 as compared to 14.4% for all of the U.S.

Chart 1 – Population Trends (2007 – 2011)



Employment Trends

Total wage and salary employment in the Washington metropolitan area decreased to approximately 2,938,900 in fiscal year 2011 from the revised 2,956,700 for fiscal year 2010, representing a 0.6% decrease. These numbers exclude the self-employed, domestic workers, and military and foreign government personnel, which represent a significant portion of the total workforce of the region. Some of the references to the 2010 employment numbers may differ from those presented in the fiscal year 2010 CAFR because of updates and revisions. **Table 2** presents 2011 labor market data for the District and the metropolitan region.

Total wage and salary employment within the District decreased slightly to 23.9% of the metropolitan area's total wage and salary employment. The seasonally adjusted September 2011 unemployment rate in the District was 11.1%, compared to the September 2010 seasonally adjusted rate of 9.7%.

Total employment within the District increased to 710,500 as of September 2011 from the revised 708,408 as of September 2010. 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 2011 federal workforce in the Washington metropolitan area was 379,200; with approximately 209,800 federal employees located in Washington, D.C. and 169,400 additional federal employees who worked elsewhere in the Washington metropolitan area.

Minimum Wage Rate

District law requires that the minimum wage rate for District employees be at least $1.00 per hour more than the Federal minimum wage. Beginning on July 24, 2009, the Federal minimum wage rate was increased to $7.25 per hour and has not been revised since that time. Therefore, effective July 24, 2009, the District's minimum wage rate increased to $8.25 per hour and remained unchanged through calendar year 2011.

Table 2 – 2011 Labor Market Data for the District and Surrounding Metropolitan Area

Labor Market (000s): FY 2011

	District of Columbia			**Metropolitan Area**		
Item	**Level**	**1 yr. change (number)**	**1 yr. change (%)**	**Level**	**1 yr. change (number)**	**1 yr. change (%)**
Employed residents	297.8	-2.1	-0.7	2,904.3	24.0	0.8
Labor force	334.5	3.2	1.0	3,092.8	30.9	1.0
Total wage and salary employment	710.5	0.9	0.1	2,983.9	8.5	0.3
Federal government	209.8	0.2	0.1	379.2	-0.3	-0.1
Local government	34.6	-0.4	-1.1	307.6	2.1	0.7
Leisure & hospitality	59.0	-0.4	-0.7	266.8	1.2	0.5
Trade	21.4	-1.5	-6.6	315.7	-2.1	-0.7
Education and health	108.3	-0.8	-0.7	362.3	3.1	0.9
Prof., bus., and other services	215.1	2.3	1.1	874.0	8.9	1.0
Other private	62.3	1.5	2.5	478.3	-4.4	-0.9
Unemployed	36.7	5.4	17.1	188.5	6.9	3.8
New Unemployment Claims	1.9	0.3	17.7			

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

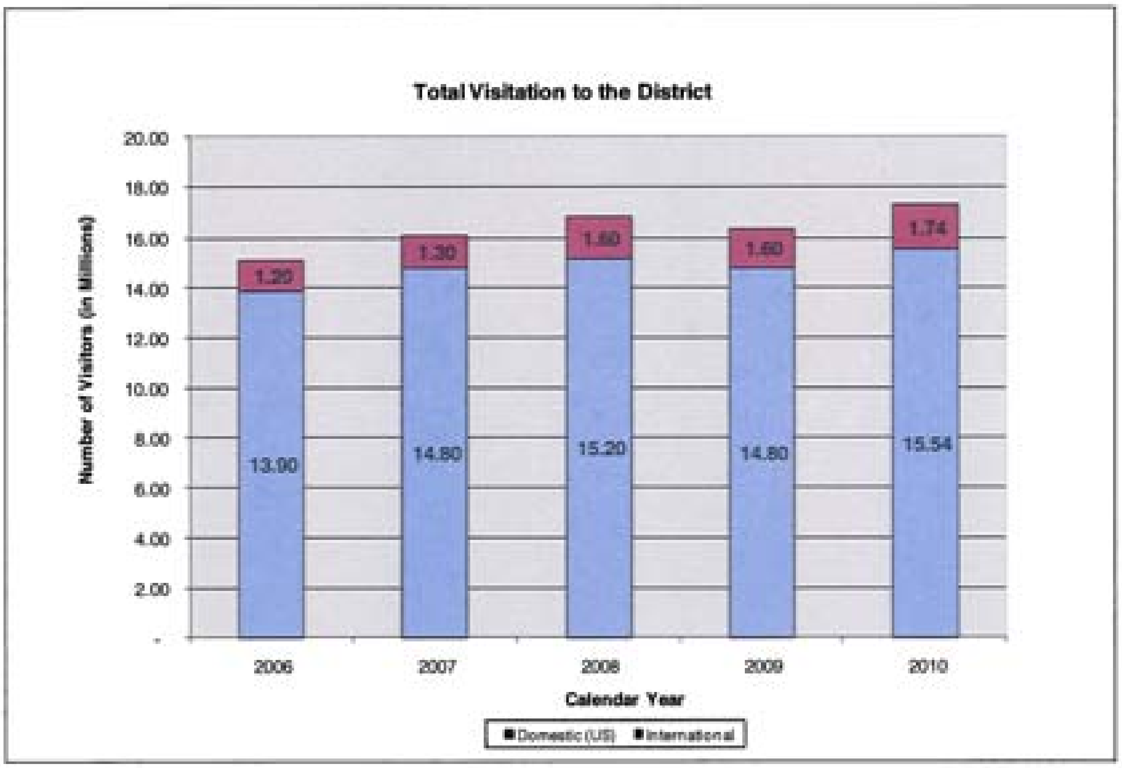
All data are monthly averages for the fiscal year and are preliminary, not seasonally adjusted.

Tourism and Hospitality

Millions of U.S. citizens and international tourists visit the District's more than 400 museums and other historical landmarks each year. Popular attractions include sites along the National Mall, numerous monuments to U.S. presidents, war memorials, and other museums. The presence of a large number of foreign embassies, recognized diplomatic missions, and other international organizations in the District helps to boost tourism/ visitation within the District. In calendar year 2010, approximately 15.54 million domestic visitors and 1.74 million international visitors traveled to the District. During calendar year 2010, the District was the seventh most visited destination in the U.S. for international travelers. **Chart 2** presents the trends in tourism for calendar years 2006 through 2010. Tourism data for calendar year 2011 are not yet available.

Direct visitor spending generated additional business activity in related industries (*e.g.*, hotel, restaurant, and retail) and continues to help sustain the local and regional economies. The District's hospitality industry generated an estimated $5.69 billion in visitor spending on hotels, retail, transportation and entertainment in 2010, which was an increase of 8.3% over the prior year. Hotel occupancy was approximately 76.3% at September 30, 2011. Travel and tourism support more than 71,301 jobs in the District, generating approximately $2.8 billion in wages.

Chart 2 – Trends in District Tourism (2006 – 2010)



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

<u>Construction - Commercial Real Estate</u>

The construction sector showed signs of recovery during calendar year 2011 as the vacancy rate for commercial office properties fell slightly from the 2010 level. During the year, leased space increased by 1.71 million square feet, outpacing the net addition to inventory of 1.56 million square feet. Consequently, the vacancy rate (including sublet) declined from 9.1% at the end of 2010 to 8.7% at the end of 2011.

In 2011, federal leasing activities continued to contribute to the declining vacancy rate while private sector tenants remained hesitant to lease new space. It is anticipated that federal leasing activity would remain constant. However, private-sector demand is expected to slowly improve over the next few years. It is further expected that construction completions will be "light", with the new supply being at its lowest since the late 1990s.

<u>Construction – Housing Units</u>

For the 12-month period ending September 2011, 2,458 housing unit building permits were issued. This was a level which had not been reached since the spring of 2006.

Apartment Units in the District

	2007	2008	2009	2010	2011
Inventory	84,186	85,427	87,090	87,970	89,071
Occupied Units	80,819	81,521	81,964	82,965	84,439

In calendar year 2011, there were 89,071 apartment units in the District, of which 84,439, or 94.8%, were occupied. It is anticipated that approximately 4,899 new apartment units will be added to the inventory in calendar years 2012 and 2013.

American Recovery and Reinvestment Act (Stimulus Act) Expenditures

On February 17, 2009, the American Recovery and Reinvestment Act (ARRA), or federal "Stimulus Bill" was signed into law. The Stimulus Bill was created to jump start the economy, preserve existing jobs, create new employment opportunities, and promote economic recovery throughout the country. Stimulus funding was made available for investments in infrastructure, energy efficiency, science, and state and local fiscal stabilization.

The District received stimulus funding for a variety of activities, including: road and bridge construction; public transportation improvements; energy efficiency and environmental projects; health care and health research; education; and public safety. Total stimulus operating expenditures were approximately $205.4 million in fiscal year 2011. Approximately $171.3 million, or 83.4%, of the stimulus operating expenditures were made by the following agencies: Department of Health Care Finance (44.3%), Office of the State Superintendent for Education (15.9%), Department of Housing and Community Development (14.4%), and Department of Human Services (8.8%).

In fiscal year 2011, total stimulus capital expenditures were approximately $55.9 million, of which approximately $52.4 million, or 94%, were made by the District Department of Transportation (71%) and the District Department of the Environment (23%).

The District's Bond Rating

Rating agencies assess the credit quality of municipal issuers and assign a credit rating to the issuer based on the outcome of their assessments. Consequently, rating agencies provide vital information to investors regarding the relative risks associated with rated bond issues. Attaining an acceptable credit rating is important to an issuer because it allows the issuer to more easily access the market.

The three primary agencies that rate municipal debt are: (1) Fitch Ratings; (2) Moody's Investors Service; and (3) Standard & Poor's Rating Service. **Table 3** presents the District's bond ratings from these rating agencies for the past four years. The District's ratings for its general obligation bonds have remained high over the last several years. As a result, the District has been able to access the market and issue bonds more cost effectively.

During fiscal year 2009, the District issued its first Income Tax Secured Revenue Bonds. These 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, or lending of the public credit for private undertakings. As presented in **Table 3**, the District's ratings for its Income Tax Secured Revenue Bonds continued to be high in fiscal year 2011.

Table 3 – Bond Rating History (Last Four Fiscal Years)

	General Obligation Bonds				Income Tax Secured Revenue Bonds		
	2008	2009	2010	2011	2009	2010	2011
Fitch Ratings	A+	A+	AA-	AA-	AA	AA+	AA+
Moody's Investors Service	A1	A1	Aa2	Aa2	Aa2	Aa1	Aa1
Standard & Poor's Rating Service	A+	A+	A+	A+	AAA	AAA	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 area's poor and needy population. The District's overall poverty rate of 18.8% and child poverty rate of 31.1% 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.

Moreover, the costs of delivering services to District residents are high. Labor costs in the District are 21% above the national average for public services, and the costs associated with acquiring capital goods and services are 55% above the national average. The high costs of delivering services to a large population in need of healthcare, housing, welfare and other similar services or assistance severely strains the District's financial resources. It has been estimated that 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% more than the national average to deliver it.

The District's ability to pay the high costs of service delivery is limited by several federally mandated restrictions. The federal government has restricted the District's tax base by prohibiting the taxation of federal real property. However, the federal government does not provide a Payment in Lieu of Taxes to compensate for this lost tax revenue. In addition, the Home Rule Act prohibits the District from taxing nonresident income. This prohibition significantly reduces the District's income tax base because approximately 66% of the workers in the District are nonresidents.

As a result of these restrictions on the District's tax revenue collections, District 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. Under slower revenue growth scenarios, District services could become severely impaired.

The U.S. Government Accountability Office (GAO), in its report entitled, "District of Columbia – Structural Imbalance and Management Issues," described the impact of the high cost of living, high poverty and crime rates, and limited tax base on the District's financial operations and estimated the range of the District's structural deficit to be between $470 million to $1.1 billion annually. Although the GAO's report, which was issued in May 2003, discusses conditions that existed at that time, the District's financial operations continue to be negatively impacted by the conditions reported.

Long-Term Financial Planning

As a result of improved financial management practices over the years, the District has been able to develop and operate within more disciplined budgets and address issues faced during challenging economic times. Across the nation, recovery from the recent recession has been slow and the District has not been immune to the lingering effects of the economic downturn.

District officials have developed and implemented a plan for maintaining a strong, stable financial environment, which includes:

- Monitoring and analyzing the District's quarterly revenue estimates and making spending adjustments throughout the year, as necessary;
- Identifying sound measures to enhance revenue streams; and
- Developing and implementing plans to minimize costs without sacrificing essential programs or services.

In addition, the District implemented measures to mitigate the risk of budget shortfalls in fiscal year 2011 and beyond. Some of the measures included mandatory furlough days, a tax amnesty program, and other programs/initiatives. The District is also considering other innovative initiatives such as leasing the city's fiber optic lines and establishing a program for Internet gambling. A brief discussion of each of these measures follows:

- ***Mandatory Furlough Days*** - Through the passage of the Balanced Budget Holiday Furlough Emergency Amendment Act of 2011, four statutorily mandated furlough days were authorized, which included: President's Day (February 21, 2011); D.C. Emancipation Day (April 15, 2011); Memorial Day (May 30, 2011); and Independence Day (July 4, 2011). Several groups were exempt from the furloughs, including uniformed members of the Metropolitan Police Department, emergency medical services personnel of the Fire and Emergency Medical Services Department, and employees in agencies occupying positions subject to a court order that specifically excludes such positions from furloughs. The District saved approximately $23.8 million in fiscal year 2011 as a result of these furloughs.

- ***Tax Amnesty Program*** – The District granted a tax amnesty period from August 2, 2010 through September 30, 2010. Accumulated penalties and fees on delinquent taxes paid during this period were waived. More than 11,500 of roughly 42,000 delinquent taxpayers paid their past due tax liabilities plus interest during the two-month tax amnesty period. Of the amnesty payments received, 45% were individual income taxes, 16% were sales and use taxes, 13% were corporate franchise taxes, 11% were unincorporated franchise taxes, 8% were personal property taxes, 4% were withholding taxes, and 3% were other taxes.

  The District collected approximately $20.8 million in delinquent taxes through its amnesty program, $800,000 more than estimated by the Office of the Chief Financial Officer. The excess collections were used to address the revenue shortfall in fiscal year 2011.

- ***Leasing Access to the District's Fiber Optic Network*** – The District operates a fiber optic network, D.C.-Net, which includes 350 miles of cable connecting city agencies at 355 locations. More than 33,000 District employees use D.C.-Net every day. The network handles calls to the city's emergency 911 call center and its 311 information line.

  In 2010, the District received a $17.4 million stimulus fund grant from the federal government to add 150 miles of cable to the network and bring broadband access to residents who could not afford it. The District currently has one contract (valued at $1.6 million annually) with a federal agency to lease access to D.C.-Net. The District intends to expand leasing opportunities to other federal agencies as well as other entities.

- ***Internet Gambling*** – Efforts are under way for the District to begin allowing Internet gambling (iGaming) within its borders in 2012. When implemented, the District will be the first U.S. jurisdiction to allow online poker and betting. Players will have to physically be within the District's borders to play. Although game play will take place via online connection, the technology will shut out players from outside of the District's borders. The District plans to set up 20 to 30 hot spots in hotels, stores, bars, clubs, and other locations across the city. Players must be at least 19 years old and deposits in online accounts will be limited to about $250 a week. The iGaming site will accept only debit transactions.

  It is estimated that the District may generate more than $13 million between fiscal years 2012 and 2014 through online gaming. Revenues from iGaming will be collected in the form of table fees to join poker games and taxes on winnings of $600 or more.

Major Initiatives

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

- **U.S. Department of Homeland Security Headquarters (St. Elizabeth's West Campus)**:

  In September 2009, the U.S. Department of Homeland Security (DHS) and the U.S. General Services Administration broke ground for the $3.4 billion consolidated DHS headquarters. DHS is building its headquarters on the west campus of the old St. Elizabeth's Hospital located in Southeast Washington, D.C. The first phase of this project is the new energy-efficient, 1.18 million square foot Coast Guard headquarters facility. Occupancy of the new Coast Guard headquarters facility is slated to begin in 2013.

  When completed, the DHS headquarters will house approximately 14,000 employees working in the following DHS components: Transportation Security Administration, Customs and Border Protection, Immigration and Customs Enforcement, and the Federal Emergency Management Administration.

- **CityCenter DC**

  Construction began in March 2011 on CityCenter DC, a $700 million complex with 2.5 million square feet of office, residential, and retail space as well as a public plaza and park. Completion of most of the planned project is slated for late 2013.

  The principal owner of the CityCenter DC project is the Qatari Diar Real Estate Investment Company. This real estate arm of the Persian Gulf state of Qatar made a $620 million equity investment in the project.

  CityCenter DC will include six buildings (two for apartments, two for condominiums, and two for offices), each 10 or 11 stories in height, in keeping with the District's 130-foot height restriction. The six buildings will be connected by a public courtyard. There will be 458 apartments, 216 condominiums, 185,000 square feet of retail space, 515,000 square feet of office space and four levels of underground parking. A luxury hotel is also planned for the project's second phase.

- **Convention Center Hotel**

  On November 10, 2010, the District broke ground on the 14-story Washington Convention Center Marriott Marquis Hotel. One of only four Marriott Marquis properties in the country, the hotel will have 1,175 rooms (including 46 suites) and more than 53,000 square feet of meeting space. The hotel will feature an elegant lobby and five separate retail and restaurant outlets on the ground floor; a 30,000-square foot grand ballroom; two 10,800-square foot junior ballrooms; an 18,800-sqaure foot indoor event terrace; and a 5,200 square foot rooftop terrace.

  The estimated cost of this project is $520 million. District officials approved $206 million in funding for the hotel during the summer of 2010 and the developer secured financing from private investors. The four-star boutique-style hotel, a mix of glass and steel, is scheduled to open in the spring of 2014.

  The project will create about 1,600 construction jobs and more than 1,000 jobs at the hotel when completed.

- **D.C. Streetcar**

  The District plans to build a $1.5 billion network of eight streetcar lines throughout the city by 2020, providing transit links in areas currently lacking Metrorail access. Construction on the project began in 2008. The first two lines, H Street/Benning Road in Northeast and Martin Luther King Boulevard in Anacostia, are scheduled to begin ferrying riders by 2013.

  The District purchased its first "modern streetcars" in late 2009. These cars are approximately eight feet wide and approximately 66 feet long, about 10 inches narrower than and one-third the length of a light rail double car train. The modern streetcars are able to operate in mixed traffic and can easily accommodate existing curbside parking and loading.

Several District projects and initiatives have been implemented with a focus on protecting the environment. Two of these initiatives are described more fully below:

- **Capital Bikeshare:** In September 2010, the District launched Capital Bikeshare, a regional bike sharing network of 1,100 bicycles throughout the District, and Arlington, Virginia. Bikes are docked at bike stations in the District and Arlington, where they remain locked to racks until a Capital Bikeshare member releases one for use. Anyone can become a Bikeshare member by paying the following fees: for 24 hours, $5; for 30 days, $25; or for a full year, $75.

  Members who sign up for longer than a day receive palm-size bar-coded cards. These cards are slipped into a slot to release a bike. The first 30 minutes of each ride are free, after which the charges are: $1.50 for the next 30 minutes; $3 for the third half-hour; and $6 for each 30-minute period after that.

  Amounts owed are billed to the member's credit card and $1,000 is charged if a bike is not returned within 24 hours. The billing system is activated with the insertion of the bar-coded membership card at the bike station, and another insertion when the bike is returned, both of which are transmitted to Bikeshare headquarters through a wireless, solar-powered communications network.

  Each station begins the day with about 10 bikes and five empty docking spaces. On the Capital Bikeshare Website, a click of the mouse on each station reveals the number of bikes which are available at any given moment, and the number of docking stations which are open for those who want to return a bike. Capital Bikeshare is the nation's largest program of its type. Members of Congress are encouraging the National Park Service to allow Capital Bikeshare stations on the

National Mall to offer an innovative, cost-effective and environment-friendly transportation service for the millions of people who visit the National Mall annually.

- **Anacostia River Clean Up and Protection Fund/ Carryout Bag Fees:** During fiscal year 2010, the District established the Anacostia River Clean Up and Protection Fund, which is to be used solely to fund efforts to clean and protect the Anacostia River and the other impaired waterways.

  In January 2010, to help fund such efforts, the District began levying a five-cent "bag tax" on District consumers. A consumer making a purchase from a retail establishment within the District must pay, at the time of purchase, a fee of five cents for each disposable carryout bag he or she receives. During fiscal year 2011, the District collected more than $1.8 million in bag taxes. Since the inception of the tax in 2010, the District has collected more than $3.5 million in such taxes.

The District also makes every effort to implement initiatives that will enhance service to District residents and the general public. The Pay-By-Phone Parking initiative initiative, designed to make parking in the District more convenient, was implemented in fiscal year 2011.

The District Department of Transportation rolled out the pay-by-phone parking program on a District-wide basis in fiscal year 2011. As a result, residents, workers, and visitors can now use their mobile telephones to pay for parking at all of the District's approximately 17,000 on-street metered spaces. Pay-by-phone parking gives drivers another convenient payment option. Instead of feeding cash or a credit card into a meter, transactions may be completed by telephone, on the Internet, or by using a mobile "app."

The pay-by-phone parking program is administered by Parkmobile USA, Inc. To use the Parkmobile system, motorists must register their license plate numbers and credit card information online at www.parkmobile.com. Once registered, motorists can use a mobile "app" (available for the iPhone, Android, and Blackberry), the Internet, or a toll free telephone number to pay for parking. Motorists may also select the option to receive text message alerts and reminders.

Motorists can use the mobile "app" or place a call to start a parking session when pulling into a parking spot. Motorists must key in a zone number, the amount of meter time wanted, and proceed with their business or activity. Fifteen minutes before the meter expires, the motorist will receive a text message reminder and can add additional time. There is a $0.32 fee for each transaction, which covers the credit card processing charges and other program costs. Transactions appear in real time on the hand-held devices used by the District's Parking Enforcement Officers.

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

- **Office of Planning**
  1100 Fourth Street, S.W., Suite E650
  Washington, D.C. 20024
  Telephone: (202) 442-7600
  Website: http://planning.dc.gov

- **Department of Parks and Recreation**
  3149 16th Street, N.W.
  Washington, D.C. 20010
  Telephone: (202) 673-7647
  Website: http://dpr.dc.gov

- **Department of General Services**
  2000 14th Street, N.W., 8th Floor
  Washington, D.C. 20009
  Telephone: (202) 727-2800
  Website: http://dgs.dc.gov

- **U.S. General Services Administration**
  1800 F Street, N.W.
  Washington, D.C. 20405
  Telephone: (202) 501-0705
  Website: http://www.gsa.gov

AWARDS AND ACKNOWLEDGMENTS

Awards

The Government Finance Officers Association of the United States and Canada (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, 2010. The District has received this award for twenty-seven of the last twenty-nine years. 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 generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that the fiscal year 2011 CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District also earned an award from GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the fiscal year ended September 30, 2010, for the eighth consecutive year. The PAFR presents the District's financial results in a format and language that allows information 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 photographs.

Like the Certificate of Achievement, the Award for Popular Annual Financial Reporting is valid for one year only. The District expects that the fiscal year 2011 PAFR, which will be issued 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 award.

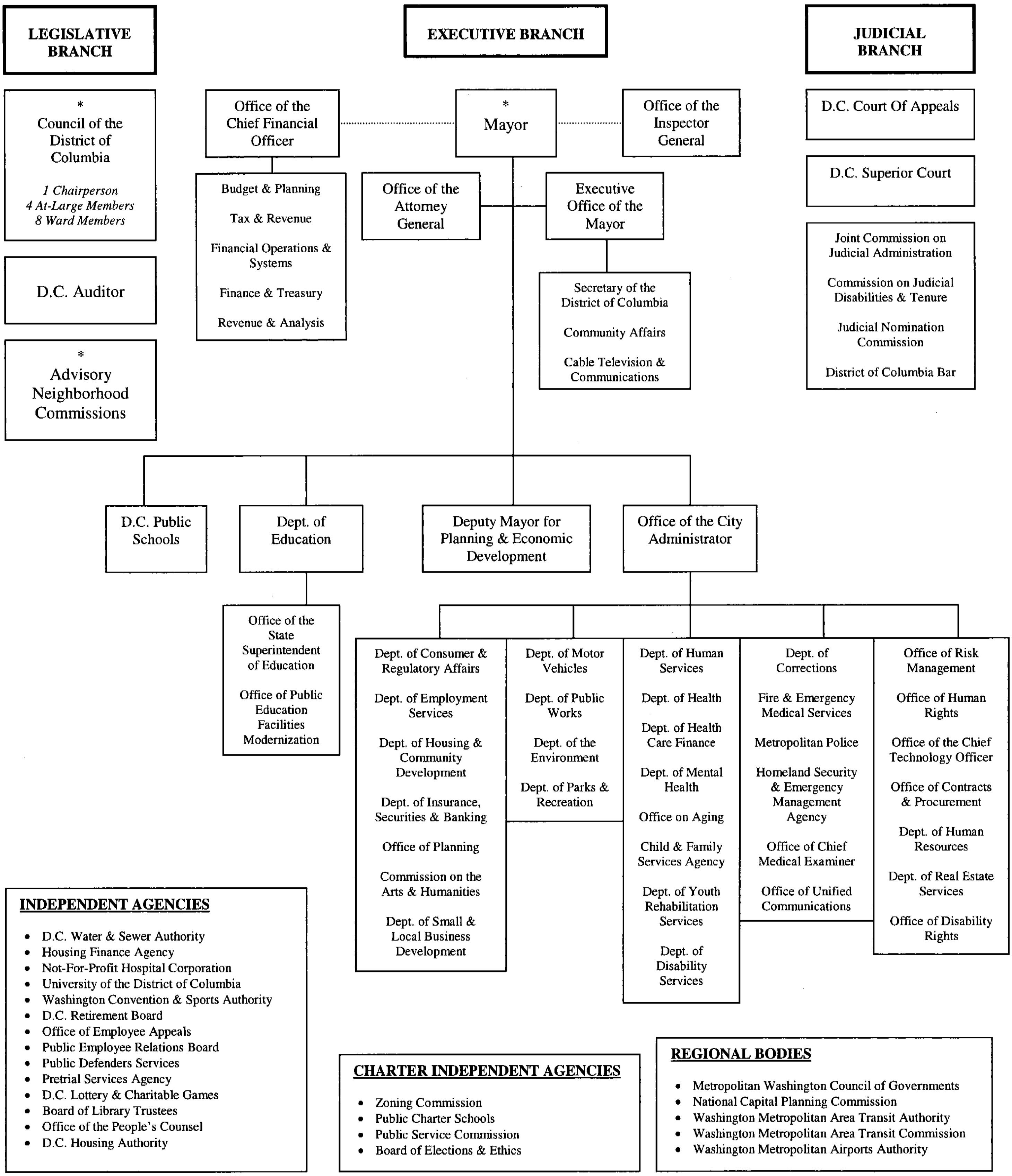
Acknowledgments

I would like to thank the District's accounting and financial management personnel who worked collaboratively 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 teams. 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, KPMG LLP, assisted by Bert Smith & Company, for their efforts throughout the audit engagement.

Respectfully submitted,

Anthony F. Pompa

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



* Elected Officials