# HEARING ON

# THE MAYOR'S FY 2008
# PROPOSED BUDGET AND FINANCIAL PLAN

**Before the**
**Subcommittee on Financial Services and General Government**
**Committee on Appropriations**
**U.S. House of Representatives**

**The Honorable José Serrano, Chairman**

**April 20, 2007; 10:00 a.m.**
**2359 Rayburn House Office Building**


**Testimony of**
**Natwar M. Gandhi**
**Chief Financial Officer**
**Government of the District of Columbia**

Good morning, Chairman Serrano and members of the subcommittee. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia, and I am here to offer brief remarks about the fiscal year 2008 proposed budget and financial plan for the District.

Before I start, it should be noted that, in formulating this budget, the new Mayor, Council Chairman, and Councilmembers have given serious attention to fiscal matters. This was a challenging budgeting and planning cycle. For Mayor Fenty's first budget since being sworn in on January 2, 2007, most of the agencies had to meet budget reduction targets of 10 percent for FY 2008 to largely help fund recurring spending pressures and policy initiatives from FY 2007. My office worked closely with the Mayor's leadership team to resolve numerous budget issues on a very compressed budget formulation schedule. Since the budget was submitted on March 23, the Council under Chairman Gray has already been hard at work. We will continue to work diligently with everyone in this collaborative process.

In my testimony that follows, I will first summarize the fiscal recovery during the past decade and discuss some of the highlights of the FY 2008 budget request and the five-year plan. I will also address our capital spending needs and the continuing structural imbalance – that is, the mismatch between spending needs and the ability to raise local revenues sufficient to fund those needs. Finally, I will address our ongoing commitment to fiscal balance and excellent financial management.

**Fiscal Recovery 1996 – 2006**

The chart that appears as Attachment A to my testimony and that appears here before you is a history of the remarkable fiscal comeback achieved by the District during the past decade. Our fiscal low point occurred in FY 1996, when the general fund balance hit a negative $518 million. Through the efforts of Mayor Williams, the District Council and the congressionally-mandated control board, we were able repeatedly to balance the District's fiscal operations, and the control board was de-activated in 2001. Between FY 1996 and the end of FY 2001, there was a $1.1 billion increase in the fund balance, to a positive $562 million by the end of FY 2001.

But the real test for the District was the challenge of sustaining fiscal stability in the post-control period. As you can see, by the end of FY 2005, the general fund balance rose another $1.0 billion – to $1.6 billion total. I believe that it is significant that of the $2.1 billion increase in the general fund balance between FY 1996 and FY 2005, the amount of gain since the control period ended was about equal to the gain during the control period. In FY 2006 planned use of fund balance, offset by higher than anticipated revenues, resulted in a drawdown of $149.5 million, bringing the total fund balance to $1.4 billion. This compares favorably to the original budget projections, which included use of more than $500 million of fund balance. This is concrete evidence of the District's practice of conservative budgeting to ensure fiscal stability.

The measure of this success is reflected in the District's bond ratings. All three rating agencies – Fitch Ratings, Moody's Investors Service and Standard & Poor's – recognized the improved creditworthiness of our bonds by raising the District's bond ratings from "junk bond" status during the control period to "A" category ratings – the highest level ever achieved by this municipality. It is notable that compared to other major cities that experienced periods of financial stress, including New York, Philadelphia, Cleveland and Detroit, this turnaround is the fastest both in terms of the time it took to return to investment grade and in the time to achieve their highest ratings. In this regard the District was helped in part by our strong local economy, which added tax revenues that were used to provide essential services to our population.

A great deal of the increase in fund balance was driven by the growth in local revenues, specifically by real estate, income and sales taxes resulting from the strong regional economy. Table 1 below shows tax revenues, general fund balance and reserve funds in FY 1996 compared to FY 2006, reflecting the revenue growth (an increase of 85% in current dollars and 50% in inflation adjusted "real dollar" terms) and prudent financial management that contributed to the increased general fund balance.

**Table 1**
**Comparison of Key Financial Measures**
*($ in thousands)*

| | **FY 1996** | **FY 2006** |
|---|---|---|
| Tax Revenues * | $2,422,144 | $4,494,126 |
| Operating Surplus/(Deficit) | ($33,688) | $325,162 |
| General Fund Balance | ($518,249) | $1,435,142 |
| Reserves Available for Operations ** | ($332,357) | $431,654 |
| Operating Reserves as % of Expenditures | -- | 8.1% |

** Net of Dedicated taxes.*
*** Includes Congressionally-mandated Emergency and Contingency Reserves plus unreserved undesignated General Fund balance.*

**Revenue Outlook**

The economic outlook for the District of Columbia for the period covered by the FY 2008-2011 proposed budget and financial plan is similar to that generally forecast for the nation as a whole – no major disruptions and steady growth in employment, wages and income, but at rates slightly below those experienced in FY 2006. The District's economy should continue to benefit from national economic growth and the stabilizing presence of the federal government.

In FY 2008, non-dedicated tax revenues are projected at $4.809 billion, 9.0 percent above the approved FY 2007 level of $4.413 billion (including $100 million in sales taxes for school modernization) and 6.2 percent above the adjusted FY 2007 level of $4.530 billion (in accordance with the December 2006 certified revenue estimate). (See Attachment C for the District's proposed FY 2008-2011 plan.)

Rising real estate assessments and sales were major sources of revenue gains in fiscal years 2003 through 2005, but sales slowed in FY 2006. The long-run fundamentals affecting the District's real estate markets are expected to remain strong. The economy is growing, and individuals and businesses continue to demonstrate a desire to locate in the city. However, it should be noted that the incidence of sub-prime mortgage lending – home loans made to borrowers not meeting the credit standards of the prime market – has increased in the U.S. and in the District in recent years. We will monitor this carefully as we prepare our quarterly revenue estimates.

**Highlights of FY 2008 Proposed Budget & FY 2008-2011 Financial Plan**

The FY 2008-2011 financial plan appears as Attachment C. Each of the four years is balanced. Tax revenues are projected to increase an average 6.5 percent per year, total local fund recurring revenues an average 5.3 percent, and recurring local operating expenditures an average 5.1 percent. Incorporated in the plan is the final phase of "tax parity" that the Mayor and Council initiated in 1999, which lowered income tax rates and achieved better balance between D.C. and its neighbors. The plan also accommodates a major new expenditure starting in FY 2008, namely, the required actuarial payment for post employment retirement benefits, thereby complying with the GASB requirement.

The Mayor's FY 2008 proposed budget includes $5.570 billion in local funds spending supported by $5.571 billion of local revenues, with an operating margin of $1.6 million.

**Table 2**
**Proposed FY 2008 Budget Summary – Local Funds**
*($ in thousands)*

| | |
|---|---|
| Total Taxes | $ 4,808,763 |
| Non-tax Revenue | 328,372 |
| Miscellaneous Revenues | 160,460 |
| Appropriated Fund Balance | 273,858 |
| **Total Local Fund Resources** | $ 5,571,453 |
| | |
| Operating Expenditures | $5,352,927 |
| PAYGO Capital and Transfer to OPEB for FY 2008 costs | 216,907 |
| **Total Expenditures** | $5,569,833 |
| | |
| **Projected FY 2008 Operating Margin** | $1,620 |

The Mayor's proposed total local fund operating expenditures for FY 2008, not including PAYGO capital or transfers for retiree health benefits, is $5,352.9 million, an increase of $425.1 million or 8.6 percent over FY 2007 approved expenditures of $4,927.8 million.

**Cost Drivers**

The total local fund budget increases 8.8 percent from FY 2007 approved to FY 2008 proposed. While the proposed budget and multi-year plan are balanced, certain activities are "cost drivers," in that they either drive the increase in the entire budget or contribute to the increase disproportionately. These cost drivers are:

- Together, public education and human support services are 50 percent of proposed local fund spending.
- Within public education, the local funds budget for charter schools is rising $54 million or 20 percent.
- Within human support services, a $53 million increase in the cost of the Health Care Safety Net takes up more than half of the $92 million increase in the Department of Health, and the Department of Mental Health increases $37 million (21 percent).
- Public safety costs represent 17 percent of proposed local spending. With the salaries for an additional 400 police officers costing $30 million, the Metropolitan Police Department's proposed budget is 12 percent higher.
- Some dramatic increases in the FY 2008 proposed budget are short-term:
    - The operating costs of information technology capital projects add $26 million, contributing to the 64 percent increase in the Office of the Chief Technology Officer.
    - The District's operating subsidy to the Washington Metropolitan Area Transit Authority rises $25 million (12.5 percent) in FY 2008 and will rise sharply in FY 2009 and FY 2010 because of the costs of "Metro Matters," before returning to "normal" levels.

- FY 2008 reflects a one-time $76 million increase in the District's cost of Other Post Employment Benefits (OPEB) because of the requirement for an actuarially based payment to the irrevocable trust.

**Gross Funds Budget**

The proposed FY 2008 gross funds operating budget, excluding enterprise funds, is $8.277 billion, an increase of $520.0 million, or 6.7 percent, over the approved FY 2007 gross funds budget of $7.757 billion. This expenditure increase is primarily due to higher proposed spending for local funds, dedicated taxes, and special purpose funds. The local and non-local funding components of the proposed FY 2008 gross funds budget and the changes from FY 2007 are summarized in Table 3 below.

**Table 3**
**FY 2008 Gross Funds Budget by Fund Type**
*($ in millions)*

| Fund Type | FY 2007 | FY 2008 | Change | % Change |
|---|---|---|---|---|
| Local [A] | $5,120 | $5,570 | $450 | 8.8% |
| Dedicated Taxes [B] | 66 | 156 | 90 | 136.4% |
| Federal | 2,038 | 2,033 | (5) | -0.2% |
| Private Grants | 7 | 8 | 1 | 14.3% |
| Special Purpose | 526 | 510 | (16) | -3.0% |
| **Total Gross Funds** | **$7,757** | **$8,277** | **$520** | **6.7%** |

*[A] The FY 2007 local funds budget displayed here includes the School Modernization Paygo Transfer of $100.0 million.*

*[B] FY 2007 dedicated taxes included only monies for the Housing Production Trust Fund. FY 2008 includes dedicated taxes for three other purposes: baseball, quality of care nursing home fund, neighborhood investment, and comprehensive housing task force. To compare FY 2007 and FY 2008 on the same basis, Line 3 would be adjusted by adding $63.8 million to FY 2007, and the increase from FY 2007 to FY 2008 would be 9.1% instead of 10.4%.*

**Local Funds Budget and Use of Fund Balance**

As recently noted in the FY 2006 Comprehensive Annual Financial Report (CAFR), the District concluded FY 2006 operations with a $1.435 billion fund balance (i.e., accumulated surplus), consisting of $1.074 billion (74.8 percent) in local funds and $361.0 million (25.2 percent) in special purpose revenue funds. Of the portion in local funds, $262.6 million was reserved in debt service escrow and $293.7 million in congressionally-imposed emergency/contingency cash reserves.

In FY 2007 the local fund is expected to end the year with an operating surplus of $21.9 million. This is based on current revenue and expenditure estimates for local funds in FY 2007, not considering the potential impact from congressional supplemental appropriations or end-of-year CAFR audit adjustments. This will increase the local fund balance.

As exhibited in Table 4, the use of fund balance and the operating margin in FY 2007 would produce a fund balance for local funds of $901.6 million at the end of FY 2007. Roughly two-thirds would represent on-going, required commitments such as congressional and bond covenant reserves. The remainder is available for appropriation and represents a substantial asset to the District. As always with fund balance, because it must be considered non-recurring, it should be used in a careful, judicious and strategic manner and not to fund on-going program commitments.

The District must invest part of the general fund balance in one-time infrastructure spending in order to address critical needs created by the ongoing structural imbalance, which I will discuss in detail later. The Mayor's proposed budget for FY 2008 utilizes $273.9 million from the accumulated fund balance. Table 4 also demonstrates that the planned drawdown of fund balance will reduce the accumulated surplus for local funds to a projected $629.4 million by the end of FY 2008.

| Table 4<br>**Local Fund Balance Analysis**<br>*($ in thousands)* | | |
|---|---|---|
| | **FY 2007** | **FY 2008** |
| Beginning Fund Balance (October 1) | $ 1,074,108 | $901,643 |
| Local Appropriated Funds | (203,300) | (273,858) |
| Projected Local Operating Margin | 21,865 | 1,620 |
| Conversion of Special Purpose to Local | 9,000 | -- |
| **Projected Ending Fund Balance (September 30)** | **$ 901,643** | **$629,405** |

The degree of reduction in the fund balance is a reflection of the considerable and growing need to improve the District's infrastructure, which I will now address in detail.

## Capital Spending

The District faces a wide variety of infrastructure needs, placing great demands on its Capital Improvements Plan (CIP). The total proposed appropriation request for the FY 2008-2013 CIP is $1.171 billion for all sources (excluding the Highway Trust Fund), which consists of $1.410 billion in new budget authority offset by $239 million in rescissions.

The increased budget authority will be financed by general obligation (G.O.) bonds, PAYGO transfers from the general fund, the Master Equipment Lease Program, asset sales, federal grants, revenue bonds, and the local streets fund. Excluding certain large financings and the local streets fund, the FY 2008 capital program includes $581 million in planned capital expenditures to be financed by $399 million in new G.O. bond issuances, $106 million of PAYGO transfers for school modernization, $76 million from the Master Equipment Lease Program, asset sales, and federal grants.

The FY 2008-2013 CIP contemplates borrowing roughly $450 million in each of the next three years, as well as the issuance of tax-supported debt for school modernization, government center buildings, traffic initiatives, and a forensics lab, all of which are worthwhile public projects.

It is difficult to compare the District of Columbia to other jurisdictions. Indeed, on a visit to the rating agencies last December, one rating analyst said that there is simply no way to fairly compare the District to other jurisdictions because it is responsible for the multiple functions that normally are associated with those of a city, a county, a school district, and a state. Using a ratio of total tax supported debt to population, the District is dramatically out of step with other large cities. Compared to the District's $9,000 per capita for all tax supported debt, New York City's is less than $6,000, Chicago's is $1,800, Boston's is $1,500, and Baltimore's is $800.

From the broader viewpoint – that D.C., unlike Baltimore, Boston, Chicago, or New York, functions as a city, a county, a school district, and a state – it is valid to weigh more heavily the use of the ratio of debt service to expenditures as the measure for judging debt burden. As of today, the District of Columbia's ratio of debt service as a percent of expenditures is 9 percent, which places us below the Moody's Investors Service large city median of 11.5 percent. Although this puts the District in a better light, this must be viewed with caution, since our projections show that by 2010 the District of Columbia's debt service to expenditures ratio will rise to 13 percent. This leads to the broader issue of the District's "structural imbalance".

**Structural Imbalance**

The District's high and rising debt burden is linked to its continuing struggle to function under what the U.S. General Accounting (now Government Accountability) Office (GAO) identified in its 2003 study of the District's finances as a "structural imbalance" between the District's expenditure needs and its ability to generate revenues. The study is an extensive analysis comparing D.C.'s revenue and expenditure bases to those of state and local jurisdictions all across the United States. From every perspective on structural imbalance examined by GAO, the District is at or near the top of the most burdened jurisdictions in the nation. The report verifies that the District suffers from a long-term structural imbalance of $470 million to $1.1 billion annually.

The GAO further reported that this structural imbalance is largely beyond District officials' direct control and that, although such a fiscal imbalance also occurs in many other U.S. states, the District's deficit is "larger in per capita terms than that of any state fiscal system…." (GAO, p. 40). One indicator of this circumstance, which takes us to the matter of the debt burden, is that (again, stated for 2003) the "District debt is larger relative to the resources it has available to repay it than that of any (other) state fiscal system." (GAO, p. 86).

Clearly, we cannot borrow our way out of the structural imbalance. So, we have had to – and have – made difficult adjustments in terms of our own tax and spending policies. And, indeed, these adjustments have worked, at least in terms of the District's tenth straight year of reporting a budgetary balance in FY 2006.

With respect to the expenditure side of the budget, the District of Columbia has a large urban population that needs help. Census data for 2005 estimate the D.C.

poverty rate at about 19 percent, the third highest in the nation when compared to states, after Mississippi and Louisiana. Of D.C.'s 248,213 households, 18.8 percent have income less than $15,000.[1] Median household income is $47,000 – in a metropolitan area where median household income is $74,700. Only about a third of D.C.'s households are at or above the metropolitan median. Like other central cities, D.C. is accountable for greater efforts to help the less advantaged in the city's population. But unlike many other central cities, the District does not have a state government that can step in with intergovernmental (state-to-local) aid systems.

The revenue challenge is equally great. Whereas the District has access to a wide range of state and local revenues, it also has, again unlike other central cities, the responsibilities of a state, a municipality, and various special districts (e.g., schools). Now, here is where the U.S. Congress plays an important role. The GAO study (which was prepared for the Appropriations Subcommittee on the District of Columbia) maintained that, if the District's "imbalance is to be addressed in the near term, it may be necessary to change federal policies to expand the District's tax base or provide additional financial support."

Accordingly, permit me to briefly note two areas where the U.S. Congress could greatly assist the nation's capital. Both go to the unfunded mandates that restrict the District's own taxing power. These will be familiar to you, but each merits continuing attention:

- The District is prohibited from taxing the income earned by non-residents who commute into the city on a daily basis. That 70 percent of the jobs in the District of Columbia are held by non-residents makes this simple point.

[1] American Community Survey, 2005.

- The District has an especially high concentration of non-taxable real property, much of it off the tax rolls due to the presence of the federal establishment. At present, 34 percent of the District of Columbia's real property is tax exempt.

As a final note on this matter, let me again stress two points. First, as our ten-year record of balanced budgets attests, we have not allowed these unfunded congressional mandates to become an excuse for fiscal irresponsibility.

Second, as the GAO study found, there is a genuine and empirically measurable problem of a fiscal imbalance. Though the existence of such a structural imbalance is not unique to the District of Columbia, it is also true that (i) the D.C. problem is measurably more problematic than other state fiscal systems, but (ii) unlike municipalities in the 50 states, the District has no state to which to turn to address the revenue and expenditure disparity.

**Clean Audit Opinions**

For the first time in testimony before this committee, I want to address the importance of clean audit opinions for the District. A clear indication of the District's continual progress in financial management and credibility can be found in the Independent Auditors Report on Compliance and on Internal Control over Financial Reporting. For FY 2006, this document, commonly called the "yellow book" report, listed one material weakness and one reportable condition. Material weaknesses and, to a lesser degree, reportable conditions are significant deficiencies in the design or operation of internal control over financial reporting. For fiscal years 2004 and 2005, the District's auditors cited no material weaknesses. In FY 2006, however, the District was reported to have a material weakness in the District of Columbia Public Schools (DCPS), the more significant category of deficiency. The reportable condition was in the management of the Medicaid program.

Although this is a great improvement over past yellow book reports (see the table below), it is imperative that we correct the problems cited by the auditors. While part of the reason for these findings is attributable to changes in the standards used by all auditing firms, most of the responsibility lies with the District government, and it is up to us collectively to see that the problems are corrected.

**YELLOW BOOK FINDINGS FY 2001 – FY 2006**

| | **Material Weaknesses** | **Reportable Conditions** |
|---|---|---|
| FY 2001 | DCPS Accounting & Fin Reporting<br>UDC Accounting & Fin Reporting<br>Medicaid Provider Accounting | Cash/Bank Reconciliation<br>Human Resource/Payroll Process Mgmt<br>Accounting - Non-Routine Transactions<br>Monitoring of Exp Against Open Procurements<br>Disability Comp Claims Mgmt<br>Reporting of Budgetary Revisions |
| FY 2002 | Health Care Safety Net Contract Mgmt<br>Medicaid Provider Accounting | Human Resource/Payroll Process Mgmt<br>Monitoring of Exp Against Open Procurements<br>Disability Comp Claims Mgmt |
| FY 2003 | Health Care Safety Net Contract Mgmt<br>Medicaid Provider Accounting | Human Resource/Payroll Process Mgmt<br>Unemployment Comp Claimant File Mgmt |
| FY 2004 | **NONE** | Unemployment Comp Claimant File Mgmt<br>Management of Disability Comp Program |
| FY 2005 | **NONE** | Management of Disability Comp Program<br>Management of Unemployment Comp Trust Fund |
| FY 2006 | District of Columbia Public Schools | Management of the Medicaid Program |

The District has faced problems of this nature in the past, and we have taken steps to rectify the problems. By way of example, the most pressing problem we encountered in the FY 2005 CAFR closing process was the reportable condition regarding disability compensation. This was an issue that needed immediate resolution or the condition would have resulted in a more serious problem this year (e.g., a material weakness). The urgency of this matter was clearly communicated to the city administrator. I directed the Office of Financial Operations and Systems and the Associate Chief Financial Officer for Government Operations to commit the necessary resources to the Office of Risk Management (ORM) to remediate the problem. A detailed action plan with a timeline was developed. The action plan was reviewed and endorsed by the external auditors. We constantly monitored the execution of the plan and worked hand-in-hand with ORM. As a result, the finding was reduced to an advisory comment by the auditor. We will continue to work with ORM to make further improvements.

The DCPS material weakness relates to grants management, human resource/ payroll issues, procurement practices, and the Medicaid program. So what is our plan of action? I want to be clear that I have taken no position on the issue of governance of the schools in the District. That is a policy question that is up to the Mayor and Council to decide. However, it is up to me, as the independent CFO, to ensure that the fiscal soundness of the District is protected. To fail to do so could have consequences for the whole District government, including the loss of our favorable bond ratings and our credibility on Wall Street.

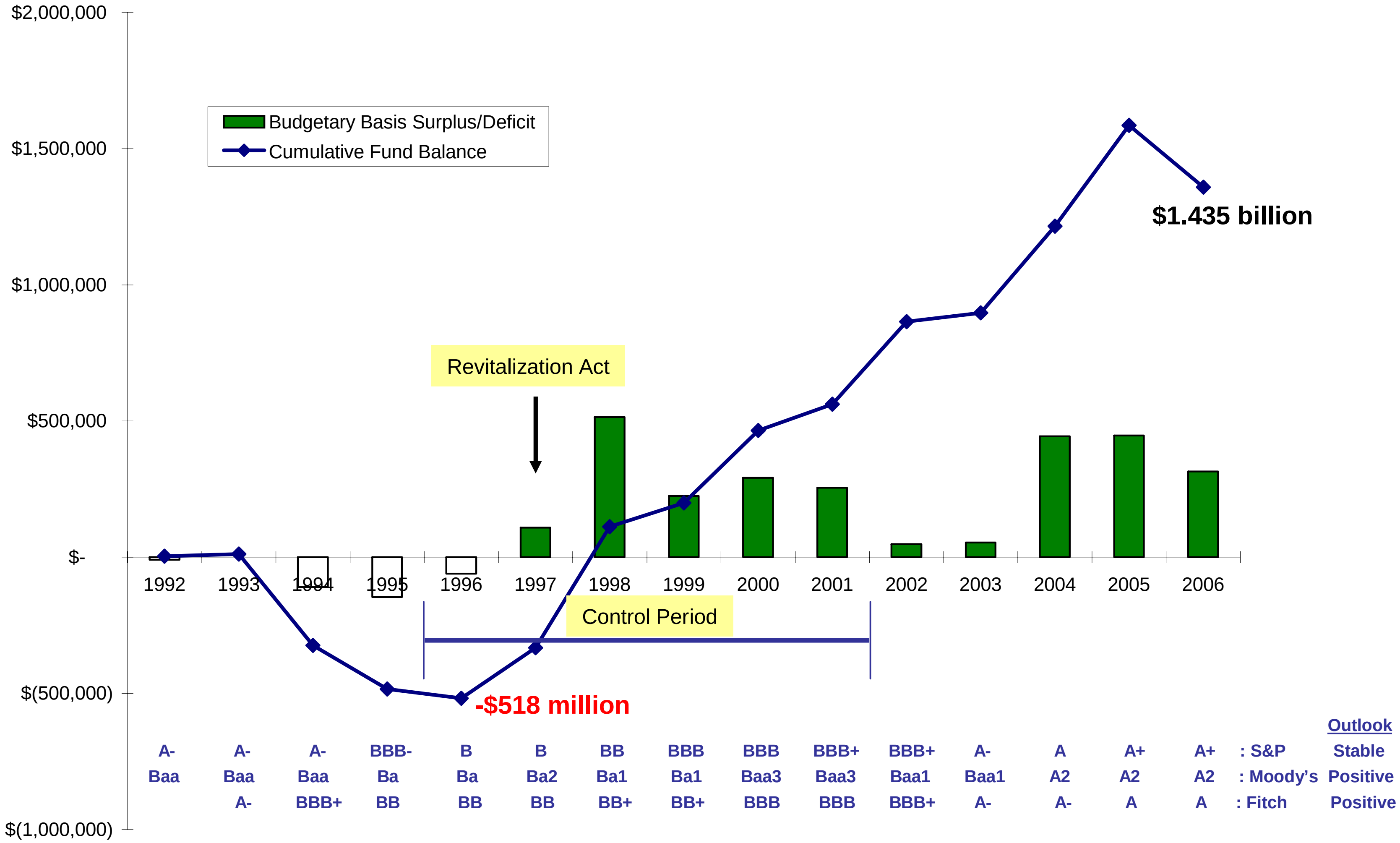
Accordingly, we are working closely with DCPS to develop a detailed plan of action, coordinate with the auditors to ensure their approval of the plan, and monitor the plan as it is executed by DCPS. In fact, the CFO's Office of Integrity and Oversight (OIO) has already performed this sort of function. OIO manages the single audit of the District's federal grants and, in that capacity, has issued management alerts and provided guidance to managers – including DCPS – whose programs have been cited by the auditor for material noncompliance.

**Conclusion**

The leadership provided by the new Mayor and the Council, along with the hard work of the Office of the Chief Financial Officer, allowed the District to produce this balanced budget for FY 2008. As a result, we are certifying that the FY 2008 budget and financial plan, as proposed, is balanced for FY 2008 and beyond.

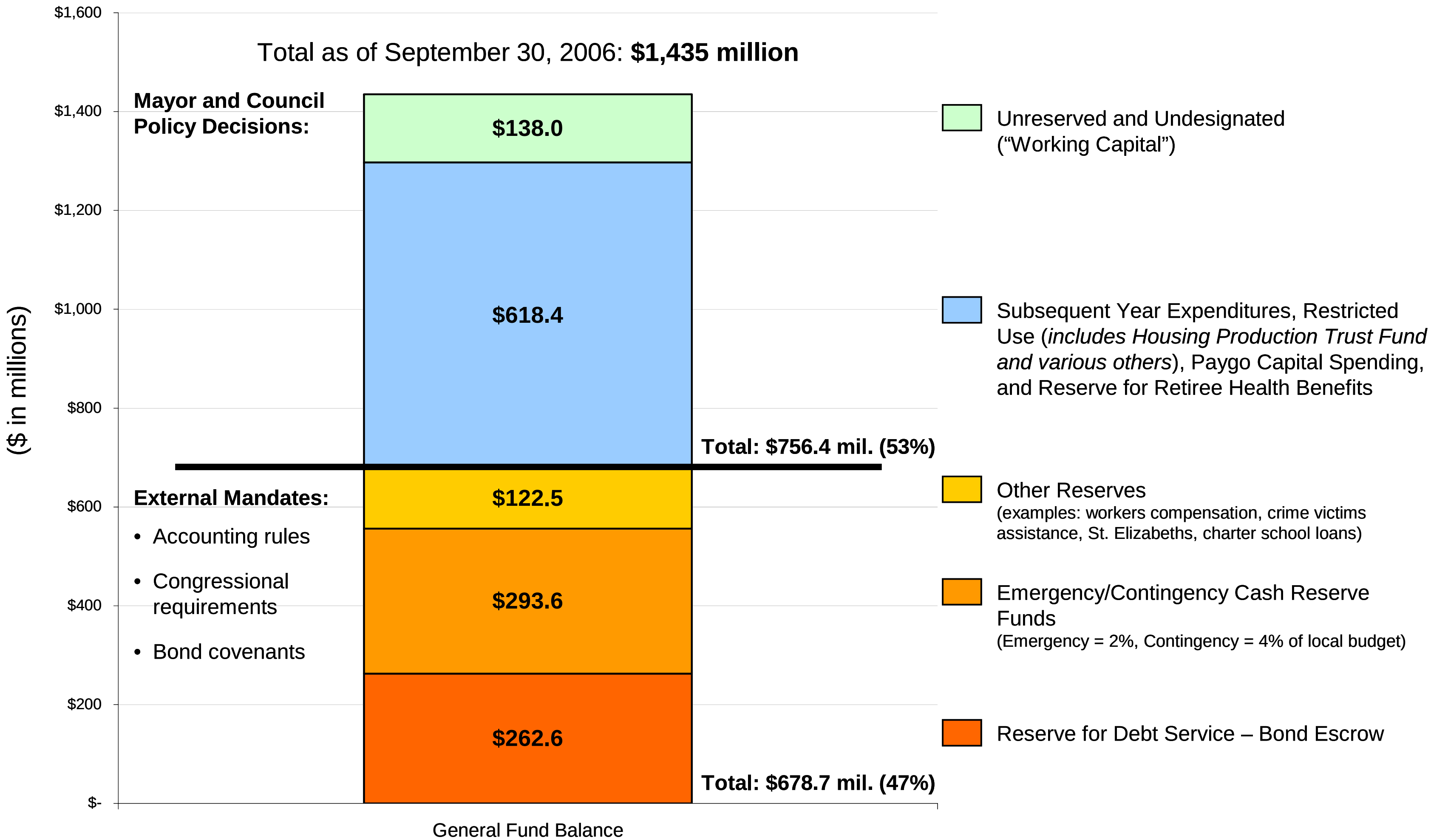
We appreciate your leadership Mr. Chairman, and we would like to thank this committee for its diligent and continuous oversight work on the District's finances during this sustained recovery period. We look forward to continuing to work with you and the subcommittee during the forthcoming budget deliberations.

# Surplus and Bond Rating History




ATTACHMENT A

# FY 2006 General Fund Balance




ATTACHMENT B

# ATTACHMENT C

Table 3-1
**FY 2008 - 2011 Proposed Budget and Financial Plan: GENERAL FUND**
($ thousands)

| | | FY 2006 Actual | FY 2007 Approved | FY 2007 Adjusted | FY 2008 Proposed | FY 2009 Projected | FY 2010 Projected | FY 2011 Projected |
|---|---|---|---|---|---|---|---|---|
| 1 | **Revenues** | | | | | | | |
| 2 | Taxes | 4,238,950 | 4,412,599 [A] | 4,530,035 | 4,808,763 | 5,090,330 | 5,372,968 | 5,655,895 |
| 3 | Dedicated Taxes | 0 | 50,587 | 57,570 | 152,246 | 154,604 | 157,949 | 161,883 |
| 4 | General Purpose Non-Tax Revenues | 361,951 | 317,277 | 335,251 | 328,372 | 335,708 | 332,604 | 337,416 |
| 5 | Special Purpose (O-type) Revenues | 375,389 | 417,657 | 381,130 | 358,250 | 343,049 | 351,985 | 345,850 |
| 6 | Transfer from Lottery | 73,800 | 72,100 | 72,100 | 72,100 | 72,100 | 72,100 | 72,100 |
| 7 | **Sub-total General Fund Revenues** | **5,050,090** | **5,270,220** | **5,376,086** | **5,719,731** | **5,995,791** | **6,287,606** | **6,573,144** |
| 8 | Effect of Tax Changes | 0 | (276) | 0 | 0 | 0 | 0 | 0 |
| 9 | **Adjusted General Fund Revenues** | **5,050,090** | **5,269,944** | **5,376,086** | **5,719,731** | **5,995,791** | **6,287,606** | **6,573,144** |
| 10 | Bond Proceeds for Issuance Costs | 10,494 | 30,000 | 30,000 | 60,000 | 30,000 | 30,000 | 30,000 |
| 11 | Payment-in-Lieu-of-Taxes from WASA | 0 | 1,551 | 1,551 | 0 | 0 | 0 | 0 |
| 12 | Transfer from Federal and Private Resources | 0 | 6,502 | 6,502 | 6,646 | 6,794 | 6,958 | 7,133 |
| 13 | Transfer from Enterprise Fund (HPTF) for Debt Serivice | 0 | 6,000 | 0 | 12,000 | 12,000 | 12,000 | 12,000 |
| 14 | Transfer from Capital Funds (Bus Shelter Revenue) for Debt Svc | 0 | 2,091 | 2,091 | 9,714 | 19,312 | 19,310 | 19,311 |
| 15 | Fund Balance Use | 528,432 | 284,287 | 352,401 | 342,042 | 0 | 0 | 0 |
| 16 | Revenue Proposals | 0 | 113,268 | 0 | 88,457 | 85,157 | 85,157 | 85,157 |
| 17 | **Total General Fund Resources** | **5,589,016** | **5,713,643** | **5,768,631** | **6,238,590** | **6,149,054** | **6,441,031** | **6,726,745** |
| 18 | | | | | | | | |
| 19 | **Expenditures (by Appropriation Title)** | | | | | | | |
| 20 | Governmental Direction and Support | 333,547 | 433,759 | 391,448 | 379,744 | 350,253 | 360,739 | 369,848 |
| 21 | Economic Development and Regulation | 251,762 | 288,974 | 313,377 | 326,926 | 283,001 | 289,945 | 292,624 |
| 22 | Public Safety and Justice | 894,748 | 943,295 | 938,138 | 1,040,187 | 1,012,186 | 1,046,078 | 1,078,735 |
| 23 | Public Education System | 1,170,703 | 1,223,971 | 1,246,672 | 1,276,228 | 1,280,714 | 1,323,201 | 1,352,728 |
| 24 | Human Support Services | 1,389,575 | 1,423,138 | 1,494,066 | 1,579,054 | 1,592,237 | 1,659,006 | 1,727,934 |
| 25 | Public Works | 363,798 | 405,318 | 366,836 | 559,547 | 557,619 | 602,306 | 581,695 |
| 26 | Financing and Other | 432,124 | 586,296 | 520,561 | 660,161 | 669,823 | 732,049 | 778,705 |
| 27 | Cash Reserve (Budgeted Contingency) | 0 | 50,000 | 500 | 50,000 | 50,000 | 50,000 | 50,000 |
| 28 | Lease Purchase Costs | 24,574 | 43,955 | 43,955 | 43,755 | 48,750 | 57,612 | 68,877 |
| 29 | **Sub-total, Operating Expenditures** | **4,860,831** | **5,398,706** | **5,315,554** | **5,915,602** | **5,844,582** | **6,120,936** | **6,301,145** |
| 30 | School Modernization Fund | 0 | 100,000 | 100,000 | 106,000 | 112,360 | 119,102 | 126,248 |
| 31 | Paygo Capital | 265,023 | 87,987 | 87,987 | 0 | 0 | 0 | 0 |
| 32 | Transfer to Trust Fund for Post-Employment Benefits | 138,000 | 4,700 | 4,700 | 110,907 | 86,200 | 91,800 | 97,700 |
| 33 | Transfer to Enterprise Funds - HPTF and Baseball Revenue Fund | 0 | 120,418 | 112,250 | 103,462 | 104,586 | 106,719 | 109,339 |
| 34 | **Total General Fund Expenditures and Transfers** | **5,263,855** | **5,711,811** | **5,620,491** | **6,235,971** | **6,147,728** | **6,438,557** | **6,634,432** |
| 35 | **Operating Margin, Budget Basis** | **325,161** | **1,832** | **148,140** | **2,619** | **1,326** | **2,474** | **92,313** |
| 36 | | | | | | | | |
| 37 | **Beginning General Fund Balance** | **1,584,683** | **1,435,142** | **1,435,142** | **1,210,881** | **851,458** | **832,784** | **815,258** |
| 38 | Operating Margin, Budget Basis | 325,161 | 1,832 | 148,140 | 2,619 | 1,326 | 2,474 | 92,313 |
| 39 | Projected GAAP Adjustments (Net) | 53,729 | (20,000) | (20,000) | (20,000) | (20,000) | (20,000) | (20,000) |
| 40 | Deposits into Reserve Funds (From Fund Balance) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 41 | Deposits into Reserve Funds (To Cash Reserves) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 42 | Fund Balance Use | (528,432) | (284,287) | (352,401) | (342,042) | 0 | 0 | 0 |
| 43 | **Ending General Fund Balance** | **1,435,142** | **1,132,687** | **1,210,881** | **851,458** | **832,784** | **815,258** | **887,572** |
| 44 | | | | | | | | |
| 45 | **Composition of Fund Balance** | | | | | | | |
| 46 | Emergency Cash Reserve Balance (2%, formerly 4%) | 76,952 | 81,607 | 81,607 | 101,902 | 103,051 | 115,733 | 115,733 |
| 47 | Contingency Cash Reserve Balance (4%, formerly 3%) | 216,697 | 163,458 | 216,697 | 216,697 | 216,697 | 231,815 | 231,815 |
| 48 | Fund Balance not in Emergency & Contingency Reserves | 1,141,493 | 887,622 | 912,577 | 532,859 | 513,036 | 467,710 | 540,024 |
| 49 | **Ending General Fund Balance (Line 43)** | **1,435,142** | **1,132,687** | **1,210,881** | **851,458** | **832,784** | **815,258** | **887,572** |

[A] Please note: The deduction for School Modernization Dedicated Taxes is shown in the expenditure section of this Financial Plan in order to reflect the true level of revenue generated from taxes. Also, total revenues and expenditures include $49 million of Tobacco Settelement Funds allocated for the Community Access to Healthcare Program.

## ATTACHMENT D

Table 3-2
**Local Funds Component of the General Fund**
($ thousands)

| | | FY 2006 Actual | FY 2007 Approved | FY 2007 Adjusted | FY 2008 Proposed | FY 2009 Projected | FY 2010 Projected | FY 2011 Projected |
|---|---|---|---|---|---|---|---|---|
| 1 | **Revenues** | | | | | | | |
| 2 | Taxes | 4,238,950 | 4,412,599 [A] | 4,530,035 | 4,808,763 | 5,090,330 | 5,372,968 | 5,655,895 |
| 4 | General Purpose Non-Tax Revenues | 361,951 | 317,277 | 335,251 | 328,372 | 335,708 | 332,604 | 337,416 |
| 6 | Transfer from Lottery | 73,800 | 72,100 | 72,100 | 72,100 | 72,100 | 72,100 | 72,100 |
| 7 | **Sub-total Local Fund Revenues** | **4,674,701** | **4,801,976** | **4,937,386** | **5,209,235** | **5,498,138** | **5,777,672** | **6,065,411** |
| 8 | Effect of Tax Changes | 0 | (276) | 0 | 0 | 0 | 0 | 0 |
| 9 | **Adjusted Local Fund Revenues** | **4,674,701** | **4,801,700** | **4,937,386** | **5,209,235** | **5,498,138** | **5,777,672** | **6,065,411** |
| 10 | Bond proceeds for Issuance Costs | 10,494 | 30,000 | 30,000 | 60,000 | 30,000 | 30,000 | 30,000 |
| 11 | Payment-in-Lieu-of-Taxes from WASA | 0 | 1,551 | 1,551 | 0 | 0 | 0 | 0 |
| 12 | Transfer from Federal and Private Resources | 0 | 6,502 | 6,502 | 6,646 | 6,794 | 6,958 | 7,133 |
| 13 | Transfer from Enterprise Fund (HPTF) for Debt Service | 0 | 6,000 | 0 | 12,000 | 12,000 | 12,000 | 12,000 |
| 14 | Transfer from Capital Funds (Bus Shelter Revenue) for Debt Svc | 0 | 2,091 | 2,091 | 9,714 | 19,312 | 19,310 | 19,311 |
| 15a | Fund Balance Use: To Replace Dedicated Gross Sales Taxes | 0 | 46,477 | 46,477 | 65,385 | 0 | 0 | 0 |
| 15b | Fund Balance Use: Transfers to Capital and Trust Fund | 403,023 | 87,987 | 87,987 | 0 | 0 | 0 | 0 |
| 15c | Fund Balance Use: One-time Expenditures in FY | 101,416 | 41,866 | 41,866 | 208,473 | 0 | 0 | 0 |
| 15d | Fund Balance Use: Other | 0 | 0 | 44,683 | 0 | 0 | 0 | 0 |
| 16a | Revenue Proposals- Tax Compliance Initiatives | 0 | 49,000 | 0 | 0 | 0 | 0 | 0 |
| 16b | Revenue Proposals - Council actions incl. deed tax, Care First, etc | 0 | 49,117 | 0 | 0 | 0 | 0 | 0 |
| 17 | **Total Local Fund Resources** | **5,189,634** | **5,122,291** | **5,198,543** | **5,571,453** | **5,566,244** | **5,845,940** | **6,133,855** |
| 18 | | | | | | | | |
| 19 | **Expenditures (by Appropriation Title)** | | | | | | | |
| 20 | Governmental Direction and Support | 303,103 | 330,101 | 336,669 | 322,067 | 301,799 | 311,274 | 321,077 |
| 21 | Economic Development and Regulation | 118,198 | 128,468 | 127,155 | 133,213 | 117,339 | 120,428 | 123,607 |
| 22 | Public Safety and Justice | 839,975 | 888,003 | 911,772 | 957,050 | 942,343 | 974,778 | 1,008,435 |
| 23 | Public Education System | 1,166,809 | 1,203,492 | 1,237,420 | 1,253,915 | 1,261,969 | 1,304,065 | 1,333,860 |
| 24 | Human Support Services | 1,356,563 | 1,369,566 | 1,457,449 | 1,536,595 | 1,553,968 | 1,620,168 | 1,689,487 |
| 25 | Public Works | 322,272 | 351,396 | 349,544 | 410,051 | 432,028 | 474,094 | 455,283 |
| 26 | Financing and Other | 432,124 | 562,791 | 519,527 | 646,281 | 658,162 | 720,145 | 766,968 |
| 27 | Cash Reserve (Budgeted Contingency) | 0 | 50,000 | 500 | 50,000 | 50,000 | 50,000 | 50,000 |
| 28 | Lease Purchase Costs | 24,574 | 43,955 | 43,955 | 43,755 | 48,750 | 57,612 | 68,877 |
| 29 | **Sub-total, Operating Expenditures** | **4,563,618** | **4,927,772** | **4,983,991** | **5,352,927** | **5,366,358** | **5,632,564** | **5,817,594** |
| 30 | Paygo to School Modernization Capital Fund | 0 | 100,000 | 100,000 | 106,000 | 112,360 | 119,102 | 126,248 |
| 31 | Paygo Capital | 265,023 | 87,987 | 87,987 | 0 | 0 | 0 | 0 |
| 32 | Transfer to Trust Fund for Post-Employment Benefits | 138,000 | 4,700 | 4,700 | 110,907 | 86,200 | 91,800 | 97,700 |
| 34 | **Total Local Fund Expenditures and Transfers** | **4,966,641** | **5,120,459** | **5,176,678** | **5,569,833** | **5,564,918** | **5,843,466** | **6,041,542** |
| 35 | **Operating Margin, Budget Basis** | **222,993** | **1,832** | **21,865** | **1,620** | **1,326** | **2,474** | **92,313** |

[A] Please note: The deduction for School Modernization Dedicated Taxes is shown in the expenditure section of this Financial Plan in order to reflect the true level of revenue generated from taxes.

## ATTACHMENT E

Table 3-3
**Dedicated Taxes Component of the General Fund**
($ thousands)

| | | FY 2006 Actual | FY 2007 Approved | FY 2007 Adjusted | FY 2008 Proposed | FY 2009 Projected | FY 2010 Projected | FY 2011 Projected |
|---|---|---|---|---|---|---|---|---|
| 1 | **Revenues** | | | | | | | |
| 3a | Dedicated Taxes for the Neighborhood Investment Trust | 0 | 0 | 0 | 9,875 | 10,000 | 10,000 | 10,000 |
| 3b | Dedicated Taxes for the Comprehensive Housing Trust Fund | 0 | 0 | 0 | 27,909 | 29,018 | 30,230 | 31,544 |
| 3c | Dedicated Taxes for the Housing Production Trust Fund | 0 | 50,587 | 57,570 | 57,065 | 59,279 | 61,707 | 64,327 |
| 3d | Dedicated Taxes for the Nursing Facility Quality of Care Fund | 0 | 0 | 0 | 11,000 | 11,000 | 11,000 | 11,000 |
| 3e | Dedicated Taxes for the Ballpark Fund | 0 | 0 | 0 | 46,397 | 45,307 | 45,012 | 45,012 |
| 9 | **Sub-total Dedicated Taxes** | **0** | **50,587** | **57,570** | **152,246** | **154,604** | **157,949** | **161,883** |
| 15 | Fund Balance Use: Other | 0 | 0 | 0 | 5,179 | 0 | 0 | 0 |
| 16 | Revenue Policy Proposals | 0 | 15,151 | 0 | 0 | 0 | 0 | 0 |
| 17 | **Total Dedicated Taxes** | **0** | **65,738** | **57,570** | **157,425** | **154,604** | **157,949** | **161,883** |
| 18 | | | | | | | | |
| 19 | **Expenditures (by Appropriation Title)** | | | | | | | |
| 20 | Governmental Direction and Support | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 | Economic Development and Regulation | 0 | 0 | 0 | 42,963 | 39,018 | 40,230 | 41,544 |
| 22 | Public Safety and Justice | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 23 | Public Education System | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 24 | Human Support Services | 0 | 0 | 0 | 10,000 | 11,000 | 11,000 | 11,000 |
| 25 | Public Works | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 26 | Financing and Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 29 | **Sub-total, Operating Expenditures** | **0** | **0** | **0** | **52,963** | **50,018** | **51,230** | **52,544** |
| 33a | Transfer to HPTF Special Revenue Fund (Enterprise Fund) | 0 | 65,738 | 57,570 | 57,065 | 59,279 | 61,707 | 64,327 |
| 33b | Transfer to Baseball Revenue Fund (Enterprise Fund) | 0 | 0 | 0 | 46,397 | 45,307 | 45,012 | 45,012 |
| 34 | **Total Dedicated Taxes Expenditures and Transfers** | **0** | **65,738** | **57,570** | **156,425** | **154,604** | **157,949** | **161,883** |
| 35 | **Operating Margin, Budget Basis** | **0** | **0** | **0** | **1,000** | **0** | **0** | **0** |

## ATTACHMENT F

Table 3-4

**Special Purpose Revenue Component of the General Fund**

(Dollars in Thousands)

| | | FY 2006 Actual | FY 2007 Approved | FY 2007 Adjusted | FY 2008 Proposed | FY 2009 Projected | FY 2010 Projected | FY 2011 Projected |
|---|---|---|---|---|---|---|---|---|
| 1 | **Revenues** | | | | | | | |
| 5 | Special Purpose (O-type) Revenues | 375,389 | 417,657 [A] | 381,130 | 358,250 | 343,049 | 351,985 | 345,850 |
| 9 | **Sub-total Special Purpose Revenue Funds** | **375,389** | **417,657** | **381,130** | **358,250** | **343,049** | **351,985** | **345,850** |
| 15a | Fund Balance Use | 23,993 | 109,875 | 131,388 | 63,005 | 0 | 0 | 0 |
| 15b | Fund Balance Certified but not used | 0 | (1,918) | 0 | 0 | 0 | 0 | 0 |
| 16 | Revenue Proposals/Policy Proposals | 0 | 0 | 0 | 88,457 | 85,157 | 85,157 | 85,157 |
| 17 | **Total Special Purpose Revenue Funds** | **399,382** | **525,614** | **512,518** | **509,712** | **428,206** | **437,142** | **431,007** |
| 18 | | | | | | | | |
| 19 | **Expenditures (by Appropriation Title)** | | | | | | | |
| 20 | Governmental Direction and Support | 30,444 | 103,658 | 54,779 | 57,677 | 48,454 | 49,465 | 48,771 |
| 21 | Economic Development and Regulation | 133,564 | 160,506 | 186,222 | 150,750 | 126,644 | 129,287 | 127,473 |
| 22 | Public Safety and Justice | 54,773 | 55,292 | 26,366 | 83,137 | 69,843 | 71,300 | 70,300 |
| 23 | Public Education System | 3,894 | 20,479 | 9,252 | 22,313 | 18,745 | 19,136 | 18,868 |
| 24 | Human Support Services | 33,012 | 53,572 | 36,617 | 32,459 | 27,269 | 27,838 | 27,447 |
| 25 | Public Works | 41,526 | 53,922 | 17,292 | 149,496 | 125,591 | 128,212 | 126,412 |
| 26 | Financing and Other | 0 | 23,505 | 1,034 | 13,880 | 11,661 | 11,904 | 11,737 |
| 29 | **Subtotal, Operating Expenditures** | **297,213** | **470,934** | **331,563** | **509,712** | **428,206** | **437,142** | **431,007** |
| 33 | Transfer to Enterprise Funds - HPTF | 0 | 54,680 | 54,680 | 0 | 0 | 0 | 0 |
| 34 | **Total Special Purpose Revenue Funds component of General Funds** | **297,213** | **525,614** | **386,243** | **509,712** | **428,206** | **437,142** | **431,007** |
| 35 | **Operating Margin, Budget Basis** | **102,169** | **0** | **126,275** | **0** | **0** | **0** | **0** |

[A] Please note: Total revenues and expenditures include $49 million of Tobacco Settelement Funds allocated for the Community Access to Healthcare Program.

# ATTACHMENT G

Table 3-5

**Federal and Private Resources Financial Plan**

($ thousands)

| | Revenues | FY 2006 Actual | FY 2007 Approved | FY 2007 Adjusted | FY 2008 Proposed | FY 2009 Projected | FY 2010 Projected | FY 2011 Projected |
|---|---|---|---|---|---|---|---|---|
| F1 | Federal Grants | 1,694,725 | 2,008,024 | 2,057,906 | 2,002,327 | 2,105,475 | 2,216,789 | 2,335,131 |
| F2 | Federal Payment/Contribution | 70,421 | 36,400 | 62,617 | 36,400 | 37,258 | 38,099 | 38,960 |
| F3 | Private Grants | 21,147 | 6,850 | 11,191 | 8,562 | 8,799 | 9,076 | 9,363 |
| F4 | **Federal & Private Resources** | **1,786,293** | **2,051,274** | **2,131,714** | **2,047,289** | **2,151,532** | **2,263,964** | **2,383,454** |
| F5 | Fund Balance Use | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| F6 | Transfer to General Fund | 0 | (6,502) | (6,502) | (6,646) | (6,794) | (6,958) | (7,133) |
| F7 | **Total Federal & Private Resources** | **1,786,293** | **2,044,772** | **2,125,212** | **2,040,643** | **2,144,738** | **2,257,006** | **2,376,321** |
| F8 | | | | | | | | |
| F9 | **Expenditures (by Appropriation Title)** | | | | | | | |
| F10 | Governmental Direction and Support | 107,977 | 157,746 | 152,927 | 123,150 | 125,995 | 129,025 | 132,131 |
| F11 | Economic Development and Regulation | 130,444 | 133,742 | 135,061 | 139,959 | 143,054 | 146,695 | 150,436 |
| F12 | Public Safety and Justice | 11,668 | 7,398 | 13,697 | 7,514 | 7,727 | 7,973 | 8,228 |
| F13 | Public Education System | 201,650 | 226,462 | 286,697 | 249,467 | 255,490 | 262,046 | 268,785 |
| F14 | Human Support Services | 1,321,035 | 1,500,033 | 1,519,130 | 1,499,911 | 1,591,300 | 1,689,500 | 1,794,361 |
| F15 | Public Works | 7,068 | 19,391 | 17,700 | 20,642 | 21,172 | 21,767 | 22,380 |
| F16 | Financing and Other | 4,196 | 0 | 0 | 0 | 0 | 0 | 0 |
| F17 | **Total Federal & Private Expenditures** | **1,784,038** | **2,044,772** | **2,125,212** | **2,040,643** | **2,144,738** | **2,257,006** | **2,376,321** |
| F18 | **Operating Margin, Budget Basis** | **2,255** | **0** | **0** | **0** | **0** | **0** | **0** |
| F19 | | | | | | | | |
| F20 | **Beginning Federal & Private Fund Balance** | **117,947** | **161,310** | **161,310** | **161,310** | **161,310** | **161,310** | **161,310** |
| F21 | Operating Margin, Budget Basis | 2,255 | 0 | 0 | 0 | 0 | 0 | 0 |
| F22 | Projected GAAP Adjustments (Net) | 41,108 | 0 | 0 | 0 | 0 | 0 | 0 |
| F23 | Fund Balance Use | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| F24 | **Ending Federal & Private Fund Balance** | **161,310** | **161,310** | **161,310** | **161,310** | **161,310** | **161,310** | **161,310** |