PUBLIC ROUNDTABLE

ON

MAYOR'S FISCAL YEAR 2009 GAP-CLOSING PROPOSAL

Before the

Committee of the Whole
Council of the District of Columbia

The Honorable Vincent C. Gray, Chairman

October 17, 2008, 9:00 a.m.
Room 412, John Wilson Building

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Introduction and Summary

Good morning, Mr. Chairman and members of the Committee. My name is Natwar M. Gandhi, and I am the Chief Financial Officer for the Government of the District of Columbia. I am here to testify about the FY 2009 budget gap and certification of the plan to close that gap.

The events of the past month in the financial markets have been unprecedented in the nation's and the world's modern history. We have seen the effects of the U.S. subprime mortgage crisis permeating the markets and banking systems worldwide. The District has not been immune. Our recent revenue re-estimates forecast a drop in revenues of $130.7 million, an amount requiring the serious attention of elected leaders.

Mr. Chairman, I commend you for holding this Roundtable in order to discuss the challenges facing the District and some options for consideration by the Council for closing the budget gap. Before I address the specifics of the revenue re-estimate, the spending pressures and options for closing the gap, I will begin by providing a brief update on recent market developments, and then describe the effects on the District's finances.

Overview of Recent Market Developments

The U.S. has seen unprecedented changes in the financial markets recently, including the following significant events:

- Fannie Mae and Freddie Mac have been effectively taken over by the federal government.

- Lehman Brothers' holding company filed for Chapter 11 bankruptcy, although other parts of the firm including the investment banking division have been purchased by Barclay's Bank.
- Bank of America will purchase Merrill Lynch in a transaction scheduled to close in January.
- The federal government stepped in to bail out AIG insurance.
- The federal government moved to make Morgan Stanley and Goldman Sachs convert to commercial banks in order to regulate them as well as allow them to borrow directly from the Federal Reserve Bank.
- Banks stopped lending to borrowers and to other banks, effectively freezing up credit worldwide. Even major corporations with good credit ratings were unable to secure operating loans.
- Congress enacted legislation to provide over $700 billion to address the fiscal crisis, either through the purchase of "toxic" mortgage securities or other means.
- World financial leaders met and reached agreement last weekend to purchase equity shares in banks in an attempt to stabilize the world's credit markets and re-start the flow of cash among banks.
- The U.S. is making forced investments of $250 billion in nine major banks including Bank of America, Citigroup, and JP Morgan Chase.
- The federal government started to guarantee interbank lending.
- And finally, over the past year, the U.S. and foreign equity markets declined substantially as a result of the subprime mortgage crisis here in the U.S. and worldwide recessionary expectations. On October 16, 2007, the Dow Jones Industrial Average stood at 13,913. Yesterday,

it closed at 8,979, a one-year decline of 35 percent. This was a marked deterioration from the known decline at the time of the September revenue estimates, which was 21 percent.

Taken together, the magnitude of these events has not been seen in recent history, and the degree of federal government intervention parallels that of the 1930s.

How the District of Columbia Has Been Affected

We do not yet know the full ramifications of the current market turmoil. What we do know is that the District has shown resilience during national recessions. There are a number of reasons for this phenomenon.

First, because the District functions as a state, city, county and school district, it enjoys a diverse revenue base to fund those varied functions. Like most local governments, we have property taxes which typically are the major source of a city, county or school district's general revenue, and represent about 30 percent of District tax revenues. Like most states, the District also receives individual income and business franchise taxes, which make up over a third of all taxes. In addition, we have sales taxes which make up over 20 percent of our tax revenues, and the gross receipts tax which accounts for about 6 percent of taxes.

This revenue mix affords us flexibility we would not have enjoyed had we depended on a single source of revenue. Diversity in revenues has served the District well, as the various tax bases tend to be affected differently through economic cycles. If one revenue source contracts, growth in another may offset the losses.

Second, the presence of the federal government generally has a stabilizing effect on the District's economy, and the federal presence has translated into measurable benefits for the District. For example, about a third of the workforce is in the federal and local government sector, which is growing. There is another 15 percent in the growing areas of health care and education. For the quarter ending in June, total jobs located in the District were up 10,700 above the same time last year, stronger by far than the nation and for the Washington metropolitan area suburbs. Employment of D.C. residents is up by approximately 3,400 jobs in that same period.

Furthermore, the D.C. commercial property market remains our economic mainstay. At the end of September, the vacancy rate for commercial office space in the District was only 6.6 percent, making the District one of the strongest markets in the nation. In contrast, the current Metro area overall vacancy rate is over 10 percent.

This week's edition of <u>Business Week</u> names Arlington County and the District of Columbia as the top two communities positioned relatively better than other jurisdictions in a recession, based on the federal presence. It is this relative economic stability that has helped us achieve the A1 and A+ bond ratings that we now enjoy.

However, we are not fully immune to the effects of the recession and market turmoil. Although the number of jobs has increased, unemployment as of August was 6.9 percent, up from 5.7 percent a year ago, and unemployment claims are rising. Thus, even the federal presence does not protect the District fully from the effects of the larger national economy. We see those effects in the form of projected drops in capital gains taxes and in expected lower sales tax collections as consumers begin to cut back on discretionary spending.

Also, like all other states and municipalities, the District's pension funds' values have declined from 7 percent to 16 percent this calendar year, as of September 30, which does not include the effects of the stock market's additional net decline over the past two weeks. It should be noted that there is no sizable exposure to Lehman Brothers, AIG or the equity portion of Fannie Mae and Freddie Mac. The effect of the these declines on value on future District retirement contribution requirements are not known at this time, although the effect is mitigated to some extent by the long-term nature of the investments and payouts. As such, the extent of the effect over time will depend largely on the investment performance from this point forward. Of course no one knows what that will be, but we will continue to function responsibly in our role to help ensure that investment options and portfolios are appropriately diversified.

The District's variable-rate bonds have also been affected by the recent market turmoil, producing higher interest rates on this debt. However, over the past week or so this part of the market has improved, and at this point we do not expect to face any FY 2009 budget challenges associated with our debt service.

FY 2009 Revenues

To ensure smooth and predictable budget planning, the CFO makes revenue estimates 4 times a year: February, before the Mayor finalizes his proposed budget; May, before the Council votes on the budget; and August/September and December, to provide an updated forecast for the year just starting and preliminary information for the upcoming year's budget. In between revenue estimates, the economy can and does change.

The September revenue estimates reflected a conservative view of the economic outlook. As such, the following conservative-to-negative assumptions were incorporated:

	FY 2008	**FY 2009**
Change in total jobs	1.3%	-0.2%
Change in D.C. resident employment	1.4%	-0.8%
Change in D.C. personal income	5.5%	2.6%
Stock market change	-5.5%	-7.7%
Change in number of home sales	-20.0%	-10.0%
Change in average home sale price	-2.0%	-2.0%

Since the September estimate, the stock market has fallen farther for the year than was assumed in the estimate. However, the final impact of the current financial market turmoil on capital gains and the direct impact on the District's individual income tax revenue depend on the stock market performance through the end of the year. Right now the markets are very volatile and they could be sharply lower by the end of the year; or they could stage a remarkable recovery by then. There is simply too much volatility to say definitively what will happen one way or the other.

Why are we so concerned about what happens in the stock market? The stock market directly affects taxpayers' capital gains and losses. Compared to other jurisdictions, capital gains represent a larger share of the District's income tax base. The most recent IRS tax data show that capital gains constitute 12.7 percent of federal adjusted gross income in D.C. compared to 9.8 percent for the U.S., 7.8 percent for Virginia, and 7.2 percent for Maryland. That results in proportionately higher individual income tax revenues for the District in years of stock market growth, but when the market falls as it has been doing since mid-September, those gains become capital losses.

But there is an even greater concern. The current financial turmoil will affect the "real" economy if a tightening of both household and business credit leads to a slowdown of personal and business incomes, and consumer and investment spending. The numbers we have so far on jobs and income look positive; but they are not today's numbers. What we have not seen as yet is any systematic evidence of how the September and October turmoil in the financial markets may impact District residents' income, employment, and spending.

I must report that the initial signs are not encouraging. For example, between July and September, the initial claims for unemployment benefits have increased 35 percent compared to the same three months last year. Two days ago (October 15) the Federal Reserve Bank's *Beige Book* reported that economic activity is weakening across the nation, with the Federal Reserve Bank of Richmond (the statistical area that includes D.C.) further noting a regional tightening of individual and business credit, a softening in consumer and tourist spending, and a weakening of housing activity.

Furthermore, over the past three months collections for withholding in the District's individual income tax have been about 2 percent below those for the same period of 2007. If these "real" effects take hold, we can expect a slowdown in our sales tax and further slowing of both the corporate and individual income taxes, and perhaps an additional decline in our deed taxes. As I noted, these real economic effects are just beginning to show up in the data. We will monitor these trends closely and have a much better sense of these impacts for the December revenue estimate.

Thus, uncertainty dominates. By the time of the December estimates we will: 1) have a clearer sense of where the stock market is likely to end up for the year; 2) have new data and forecasts for the US and DC economy, and know better how much the effects of the financial turmoil are spreading to the real economy; and 3) know how the District revenues fared for FY 2008, the base year from which forecasts for FY 2009-2012 are made. Given this uncertainty, it is prudent to wait until December before we plan for the rest of FY 2009 and future years.

FY 2009 Spending Pressures

I have been asked whether the District should act now on estimated spending pressures, while we are addressing the gap that results from the September revenue estimates.

Spending pressures are usually the result of actions and circumstances that were not known at the time the budget was developed. Examples are court orders, a higher than budgeted population being served, or increased overtime to meet immediate needs (as we experienced with social workers).

At the beginning of the fiscal year, based on our analysis of unplanned needs, we prepare an estimate of spending pressures. The OCFO works closely with agency program staff to refine these estimates. We usually do not have precise amounts until two or three months of actual expenditures are available for analysis. Consequently, we have typically waited until we have more precise numbers before we address spending pressures. Right now, two weeks into the fiscal year, estimated net spending pressures for FY 2009 range from $20.5 million to $54.2 million.

When an agency reports a spending pressure, we require a corrective plan to resolve it. We require agencies to look, first, within their cluster for funds that can be reprogrammed to resolve the pressure before external resources are used. Because of the low rate of spending in the first two months, more accurate spending projections are made after the first quarter expenditures are available. Our preliminary spending pressures will likely change in the next two or three months.

As you can see from the attachment, in most cases, we can only estimate a range at this time, not a precise amount. In the past, we have addressed pressures through a combination of reprogrammings, operating cash reserve funds, and new revenues. Reprogrammings have been the source of, on average, 40 percent of reprogrammings over the last three years ($31 million in FY 2006, $37 million in FY 2007, and $44 million in FY 2008). While we do not have a $50 million reserve in FY 2009, remember that we used only $14 million of the reserve in FY 2008, because we held back about $36 million to use in FY 2009 and FY 2010. Yet we still solved our spending pressures. The economic outlook makes it most unlikely that new revenues, the third resource for addressing spending pressures, will be certified.

It is imperative, therefore, that the District government monitor the spending pressure situation very closely and take necessary action shortly after the December revenue estimates are released.

FY 2009 Gap Closing Plan

The Mayor's plan calls for closing the budget gap created by the revenue shortfall through a combination of expenditure reductions and revenue enhancements as follows:

- $59.6 million in expenditure reductions, including
  - $31.0 million from Local fund budget reductions;
  - $14.8 million from shifts of Local fund expenditures to Special Purpose Revenue funds; and
  - $13.8 million from a delay in an enhancement to District employees' retirement benefits, savings in telecommunications

costs across agencies, and the elimination of Local funding for a new agency.

- $71.4 million in revenue enhancements, including
    - $48.0 million from converting Special Purpose Revenue fund balances to Local funds;
    - $17.0 million from using additional FY 2008 revenues certified in September and not used in FY 2008; and
    - $6.4 million from two legal settlements and a renegotiated Lottery contract.

The Mayor's gap-closing plan is shown in the following table and details are included as an attachment to my testimony.

FY 2009 Gap Closing Plan

	FY 2009 ($ 000)
May approved operating margin	1,643
September revenue estimate	(130,700)
New margin	(129,057)
Certified	
Delay implementation of enhanced retirement benefits until funds are sufficient	10,000
Local funds reductions to agency budgets	30,956
Local funds savings from shifting expenses to O-type funds	14,796
Savings from negotiated citywide telecom contracts	3,365
Fund Motor Vehicle Theft Prevention Comm. with O-type funds only	475
Transfer FY 2007 O type fund balances to General Fund	46,200
Settlement income	5,170
Total certified	**110,962**
Certified conditionally	
Additional FY 2008 revenues - conditional on FY 2008 CAFR	17,000
Transfer FY 2008 O type fund balances to General Fund - conditional on FY 2008 CAFR	1,800
Total certified conditionally	**18,800**
Margin considering certified, even if conditionally	**705**
Still to be certified	
Lottery savings -- depends on Council approval of new contract, termination of current contract before its expiration in Nov 2009, and rapid transition to new vendor	1,250
Margin if all measures are certified	**1,955**

FY 2010 – FY 2012 Financial Plan

As we look at the fiscal years beyond FY 2009, we must consider the standard that should be met for maintaining a balanced four-year plan.

The Control Board Act amended The Home Rule Act to prohibit the Council from approving and the Mayor from submitting a budget to Congress that is not balanced during any fiscal year. Thus, the District may not submit a revised budget that does not contain balanced out-years.

The upcoming fiscal year budget in any plan reflects specific appropriations for activities and programs. In the past, the OCFO has objected to the use of unspecified expenditure cuts to balance the upcoming fiscal year.

The outyears are always based – and can only be based -- on assumptions about the growth rates of both revenues and expenditures. The relevant question is the reasonableness of the assumptions.

What the Mayor has submitted to Council is a proposal to revise the budget and financial plan for submission to Congress in the coming weeks, by rescinding specific appropriations and adding specific resources to the FY 2009 budget, and using reasonable assumptions to project the levels of spending and revenues in the outyears.

FY 2009 – FY 2012 Financial Plan	FY 2009	FY 2010	FY 2011	FY 2012
		($ 000)		
May approved operating margin	1,643	797	78,612	145,529
September revenue estimate	(130,700)	(152,000)	(148,600)	(124,000)
New margin	(129,057)	(151,203)	(69,988)	21,529
Certified				
Delay implementation of enhanced retirement benefits until funds are sufficient	10,000	20,000	0	0
Local funds reductions to agency budgets – (inflated by 3.1%/year)	30,956	31,916	32,905	33,925
Local funds savings from shifting expenses to O-type funds – (inflated by 3.1%/year)	14,796	15,255	15,728	16,215
Savings from negotiated citywide telecom contracts	3,365	3,439	3,515	3,592
Fund Motor Vehicle Theft Prevention Commission with O-type funds only	475	485	496	507
Transfer FY 2007 O type fund balances to General Fund	46,200	0	0	0
Settlement income	5,170	0	0	0
Total certified	**110,962**	**71,095**	**52,644**	**54,239**
Certified conditionally				
5.5% reduction to certain NPS budget lines in FY 2010 - pending final OCFO review	0	80,766	80,766	80,766
Additional FY 2008 revenues - conditional on FY 2008 CAFR	17,000	0	0	0
Transfer FY 2008 O type fund balances to General Fund - conditional on FY 2008 CAFR	1,800	0	0	0
Total certified conditionally	**18,800**	**80,766**	**80,766**	**80,766**
Margin considering certified, even if conditionally	**705**	**658**	**63,422**	**156,534**
Still to be certified				
Lottery savings -- depends on Council approval of new contract, termination of current contract before its expiration in Nov 2009, and rapid transition to new vendor	1,250	5,000	5,000	5,000
Margin if all measures are certified	**1,955**	**5,658**	**68,422**	**161,534**

Effect of Drawdown of Fund Balance on Cash Position

While I am prepared to certify the availability of fund balance to use in this gap-closing plan, I want to be very clear on the effects for the District's cash flow and possible budget effects.

The District government should be proud of having developed a healthy accumulated fund balance, including substantial Emergency and Contingency reserves of over $300 million, after going through a period of accumulated deficit more than a decade ago. (See Attachment C.) It is not the government's business to amass and hoard unnecessarily high levels of fund balance and prudent use of fund balance for one-time needs may be appropriate.

From FY 2004 through FY 2007, the District used $700 million of local fund balance for capital and other one-time purposes:

- $97 million in FY 2004
- $67 million in FY 2005
- $504 million in FY 2006
- $39 million in FY 2007

Although the District was spending fund balance in each of those years, the total fund balance did not decline by those amounts because annual revenues each year were higher than expected, offsetting some or all of what would otherwise have been a drawdown of fund balance.

The FY 2008 budget included $427 million of fund balance use. The double-digit growth in revenues and tax bases we had been experiencing previously ended in FY 2008, and the use of fund balance will result in a decline in the year-end total fund balance. This also has resulted in lower cash balances. As a result, the short-term borrowing in FY 2009 will be higher than in previous years – perhaps as much as $500 million, compared to $250 to $300 million in recent years. For our bond ratings, this trend is going in the wrong direction.

The FY 2009 Approved Budget already includes the use of $200.9 million of fund balance. The Mayor's plan to close the $130.7 million budget gap in FY 2009 involves the use of an additional $65 million fund balance -- $17 million expected in FY 2008 and $48 million of O type fund balance. I can certify that the fund balance is available for this gap-closing plan. However, we must all be concerned that fund balance be restored and maintained at healthy levels so that, in the face of the genuine need to use it in circumstances like these, it is can be used without detriment to the operations of the District.

<u>Conclusion</u>

Again, Mr. Chairman, I want to thank you for holding this Roundtable to discuss our options for balancing our budget. None of us here today has seen anything like the events of the past month in the financial markets as they have indeed been unprecedented in the nation's and the world's modern history. We are facing budget challenges. So far, I believe they are manageable and can be addressed. The District has successfully managed big problems in the past. But again, I am concerned about the outlook for the national economy and the potential effects on the District's budget. We will monitor the financial situation and keep Mayor and Council informed of significant developments. My staff and I stand ready to assist you in any way we can. This concludes my testimony, and I will be happy to answer any questions.

Preliminary FY 2009 Spending Pressures and Policy Initiatives

As of October 15, 2008
($ in millions)

A	C	D	E
	Pressure		
Agency	**Low**	**High**	**Item Description**
I. Spending Pressures -- Recurring			
A. Public Education:			
D.C. Public Charter Schools (GC0)	$3.0	$14.0	***Center City Public Charter School*** - The estimated cost of converting seven Catholic schools to public Charter schools. Estimate varies depending on the final Charter School system total enrollment count. Revenue offsets are applied to this pressure in Sec
DC Public Schools (GA0)	$12.5	$12.5	***Special education*** - Local cost of services that remain the responsibility of DCPS but whose budget was imbedded within the non-public tuition budget that was transferred from DCPS. Represents 2.2 percent of $562.1 million local funds budget. We will moni
Office of the State Superintendent of Education (GD0)	$1.0	$2.0	***Special education, attorney fees*** - Higher costs due to removal of maximum charge per case. Represents 0.8 to 1.6 percent of OSSE's $119.9 million local funds budget. Removal would be effective March 2009 or later. We will monitor to see effective date an
Special Education Transportation (GO0)	$5.0	$9.0	***U.S. District Court order*** - the order, filed May 12, 2008, establishes a funding level of $80 million for FY 2008. The upper limit is based on an increase of 5% over the FY 2008 funding level.
Subtotal, Public Education	**$21.5**	**$37.5**	
B. Human Support Services:			
Child and Family Services Agency (RL0)	$0.0	$6.0	***Federal Rulemaking for Targeted Case Management (TCM)*** - If the federal government does not repeal a rule change related to Targeted Case Management (TCM), the District can anticipate higher case management costs in the latter half of FY 2009. We will not
Department of Youth Rehabilitation Services (JZ0)	$5.0	$10.0	***Increase in costs associated with the placement and direct care for youth*** - Caused in part by the Speedy Trial Act, which increased the committed population beginning in January 2008. It has continued at a high level rather than trend down as expected. It
Department on Disability Services (JM0)	$0.0	$6.0	***Improved services to meet court orders; movement of Consumers to waiver services*** - Improved services required to meet court orders and related movement of Consumers from facilities paid with Medicaid dollars to local dollars. The movement was exacerbated
Subtotal, Human Support Services	**$5.0**	**$22.0**	

Preliminary FY 2009 Spending Pressures and Policy Initiatives

As of October 15, 2008

($ in millions)

A	C	D	E
	Pressure		
Agency	**Low**	**High**	**Item Description**
C. Public Safety and Justice:			
Fire and Emergency Medical Services (FB0)	$2.0	$5.0	***Overtime costs -*** During budget formulation EOM and Council reduced agency targets, intending to control overtime and ensure that all vacant positions would be filled. The current vacancy rate is 9% (194 positions). The Executive should consider ways to e
	$1.0	$1.0	***Step Compression Agreement with Local 36 Union -*** The agreement modifies the pay table so that firefighters progress more quickly through the steps.
	$1.0	$1.5	***Unified Pay Scale -*** Proposed alignment of emergency medical technicians (EMT) pay scale with that of firefighters, increasing pay of about 230 FTEs. Legislation related to the agreement has not yet been passed.
Subtotal, Public Safety and Justice	**$ 4.0**	**$ 7.5**	
Total Spending Pressures -- Recurring	**$ 30.5**	**$ 67.0**	
II. Spending Pressures -- Non-Recurring			
Fire and Emergency Medical Services (FB0)	$0.0	$1.8	***Local 3721 Grievance:*** The union filed a grievance seeking retroactive pay from November 27, 2005 through September 30, 2007. The union maintains that its agreement provides for 16 hours of overtime for every 48 hour tour of duty but management has paid f
Total Spending Pressures -- Non-Recurring	$0.0	$1.8	
Total Spending Pressures Before Revenue Offsets	**$ 30.5**	**$ 68.8**	
III. Revenue Offsets			
Child and Family Services Agency (RL0)	($7.0)	($7.0)	***Increase in Title IV-E federal reimbursement from 50% to 70%-*** This should reduce the gross pressures shown in Section I above for CFSA.
D.C. Public Charter Schools (GC0)	($3.0)	($7.6)	***Charter School Enrollment Fund -*** This fund provides funding in the event that either Charter Schools or DCPS actual enrollment exceeds the budgeted enrollment.
Total Revenue Offsets	($10.0)	($14.6)	
Net Spending Pressures	**$20.5**	**$54.2**	

APPENDIX B

Proposed Cost Reduction Initiatives

Delay Implementation of Enhanced Retirement Benefit – The FY 2009 budget includes $10,000,000 to begin an enhancement of retirement benefits for the District's employees hired after 1987. The budget for this enhancement are in the Workforce Investments agency. The Mayor's proposal delays this enhancement and thus reduces the Workforce Investments budget by $10 million.

Local Funds Reductions to Agency Budgets – The Mayor proposes to reduce agency budgets by a total of $30,956,488 in Local funds. Agencies were initially given a reduction figure based on an estimate of savings due to current vacancies (note that this is in addition to vacancy savings already taken during the FY 2009 budget formulation process). Agencies had the option of offering other savings options instead of taking vacancy savings. To the extent agencies did take vacancy savings, the corresponding positions have are being frozen or eliminated.

Local Funds Savings from Shift to Special Purpose Revenue – The Mayor proposes to save $14,795,961 of Local funds by shifting certain qualifying expenditures to Special Purpose Revenues. The dollar figure for each agency was based on estimates of savings due to current vacancies that are funded by Special Purpose Revenue.

Savings from Negotiated Citywide Telecom Contracts – A total of $3,364,636 is proposed for savings from two sources: (1) disconnection of unused or seldom-used phone lines and (2) renegotiating a different form ("share plan") of cellular service contracts.

Eliminate Local Funding for Motor Vehicle Theft Prevention Commission – The Mayor proposes to save $475,000 in Local Funds by reducing the budget of the Motor Vehicle Theft Prevention Commission. The Commission would have an FY 2009 budget of $250,000 of Special Purpose Revenue only.

Reduction to Nonpersonal Services Budgets of 5.5 Percent in FY 2010 – To balance the FY 2009 - FY 2012 financial plan, the Mayor proposes a 5.5 percent reduction to nonpersonal services in FY 2010, with exceptions for debt service payments and fixed costs. Because three of the FY 2009 revenue enhancements (below) are one-time in nature, and because the revenue shortfall persists for several years, additional savings are necessary in FY 2010. The Mayor estimates FY 2010 savings of $80,765,637 from this measure.

Proposed Revenue Enhancements

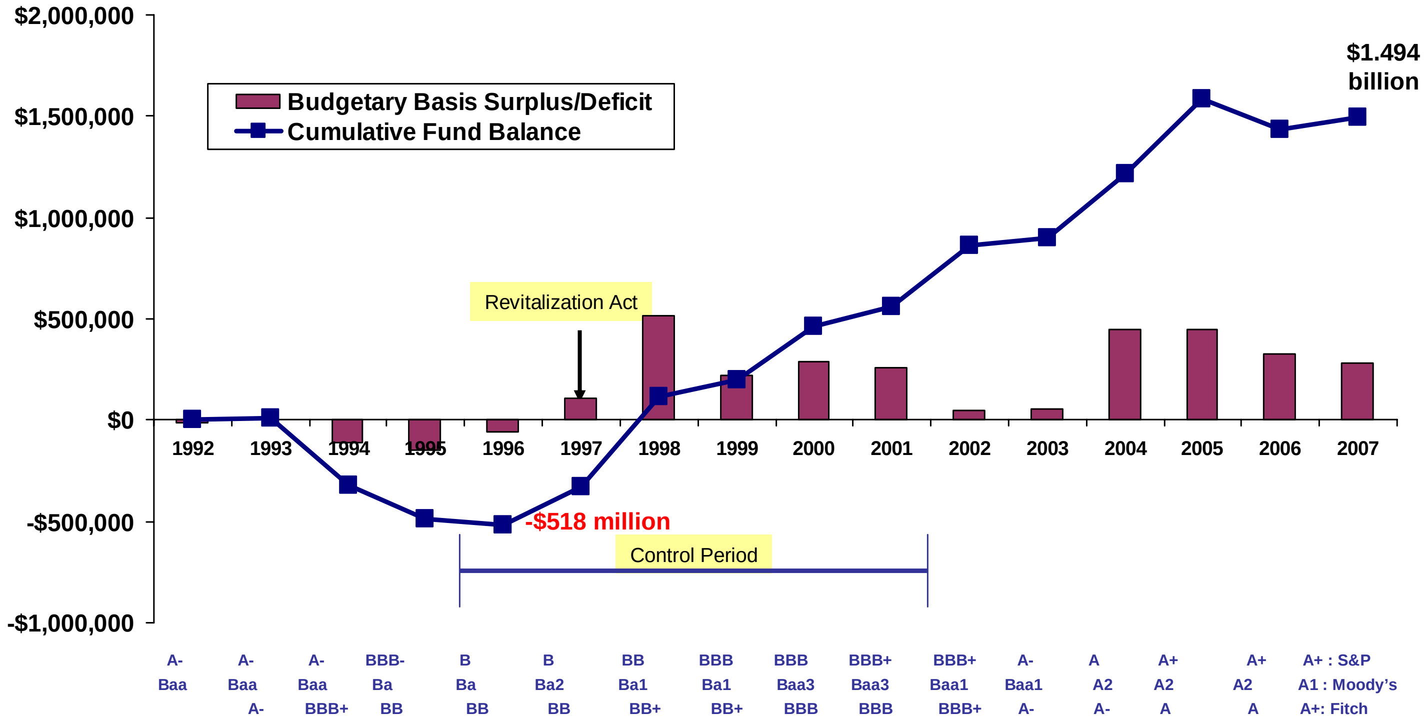
Use of Certified Additional FY 2008 Revenues – The September revenue estimates, which included the $130.7 million reduction in FY 2009 revenues, also included a revenue increase of $17,000,000 in FY 2008. The Mayor proposes to use these funds in FY 2009. This is a one-time source.

Transfer Special Purpose Revenue Fund Balances to Local Funds – The Mayor proposes to transfer $48,000,000 of Special Purpose Revenue, currently in fund balances and not otherwise budgeted for use, to the Local fund. This is a one-time source.

Additional Lottery Proceeds – The Mayor proposes to change Lottery contracts and attain an additional $1,250,000 million of revenue for FY 2009. This estimate assumes the new contract would be in effect and producing savings by the fourth quarter of FY 2009, yielding 25 percent of the estimated full-year revenue increase of $5 million.

Settlement Income – Two legal settlements have resulted in $5,170,000 of additional revenue to the District beyond what has been included in the FY 2009 revenue estimate.

Surplus and Bond Rating History



ATTACHMENT C