PUBLIC BRIEFING
ON
THE MAYOR'S FY 2007
PROPOSED BUDGET AND FINANCIAL PLAN

Before the
Committee of the Whole
Council of the District of Columbia

The Honorable Linda W. Cropp, Chairman

March 21, 2006, 1:00 p.m.
Council Chamber

Testimony of
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Government of the District of Columbia

Good afternoon, Chairman Cropp, Mr. Evans, and members of the Committee of the Whole. I am Bert Molina, Deputy Chief Financial Officer for the Office of Budget and Planning, and I am here to offer brief remarks, on behalf of Chief Financial Officer Natwar M. Gandhi, about the Fiscal Year 2007 proposed budget and financial plan.

EXPENDITURES

Local Funds

The Mayor's FY 2007 proposed budget includes $4.95 billion in spending supported by $4.952 billion of revenues, with an operating margin of $1.8 million.

Table 1
Proposed FY 2007 Budget Summary – Local Funds
($ in thousands)

Total Taxes	$ 4,341,981
Non Tax Revenue	395,675
Gross Sales Tax to School Modernization	($100,000)
Miscellaneous Revenues	46,144
Appropriated Fund Balance	219,792
Revenue Enhancements – Compliance Initiatives	49,000
Total Local Fund Resources	**$ 4,952,592**
Recurring Operating Expenditures	$ 4,826,268
Non Recurring Operating Expenditures	38,305
Subtotal Operating Expenditures	$ 4,864,573
Paygo Capital and Transfer to OPEB for FY 2007 costs	86,187
Total Expenditures	**$ 4,950,760**
Projected FY 2007 Operating Margin	**$ 1,832**

The Mayor's total local fund proposed operating expenditures for FY 2007, not including Paygo capital or transfers to OPEB, is $4,864.6 million, for an increase of $297.3 million or 6.5% over FY 2006 revised expenditures of $4,567.3 million.

CONTINGENT BUDGETING

The FY 2007 proposed local fund operating budget includes proposals to fund programs on a contingent basis – that is, with revenues expected to be available in the future through formal certified revenue estimates, fund balance, or triggered tax increases.

School Modernization

Starting in FY 2007, the first $100 million of gross sales tax that has not previously been dedicated shall be deposited into the school modernization fund. (The calculation of the “first” $100 million starts on April 1 of each year.) In FY 2008 and thereafter, the $100 million is to be increased by the increase in the Construction Cost Index, which is projected to be 6 percent per year.

To hold the general fund harmless from the impact of allocating the gross sales tax to school modernization, the following revenue sources are dedicated to replace the gross sales tax, in priority order:

1. Additional net revenues certified by the CFO since September 2005, after meeting the fiscal impact of certain legislative tax changes since December 2005. So far for FY 2007, $52.6 million of additional net revenues have been certified in the revenue estimates of September 2005, December 2005, and February 2006.

2. In FY 2007, the unrestricted General Fund Balance as of September 30, 2005. In FY 2008, the unrestricted General Fund Balance as of September 30, 2006. In FY 2009, the unrestricted General Fund Balance as of

September 30, 2007. In FY 2010, the unrestricted General Fund Balance as of September 30, 2008.

3. Starting in FY 2008, if 1 and 2 above are insufficient to hold the General Fund harmless from the transfer of gross sales tax to school modernization, then the deed and recordation tax and the transfer tax on commercial property transactions shall be increased. The CFO is to calculate the rate needed after its August revised revenue estimate, but prior to September 1. So by September 1, 2007, if the additional certified revenues through August 2007 and the fund balance as of September 30, 2006 (known by February 1, 2007) are insufficient, the tax rate would be increased, subject to Council approval.

Mayoral Contingent Initiatives

The Mayor's proposed budget for FY 2007 includes $70 million of proposed spending for programs that would be implemented only if additional revenues are certified by the CFO during the Council's FY 2007 budget deliberation process.

REVENUE OUTLOOK

Underlying the current revenue forecast is an economic outlook for the District that is similar to that which most economists have projected for the nation as a whole – steady growth in employment, wages, and income. Continued high levels of federal spending mean an extra "kick" locally because so many of these dollars will be spent here. Retail activity will continue to improve, as the number of retail outlets in the District continues to grow and as shoppers increase their spending.

One key question for the District in FY 2006 and on into FY 2007 is, "What will happen in the market for real property?" Rising real estate assessments and transactions were major sources of revenue gains in fiscal years 2003 through 2005. The key fundamentals affecting the District's real estate markets remain strong. The District's economy is growing, individuals and businesses both continue to demonstrate a desire to locate in the District, and the supply of housing and land for commercial development cannot increase very rapidly. Accordingly, the contributions of the real estate sector are expected to be significant in FY 2006 and FY 2007, as well, but they will be more muted, especially as regards the number of transactions.

In FY 2007, District general fund resources are forecasted to be $5.497 billion, an increase of $99.7 million above the FY 2006 approved budget. These amounts include local fund revenue, special purpose fund revenue, as well as proposed revenue enhancements and appropriated fund balance.

The Mayor's FY 2007 proposed budget includes $49.0 million in local fund revenue enhancements from increased compliance enforcement efforts and $65.7 million in special purpose revenue fund enhancements. The special purpose revenue fund enhancements include a change in the tax treatment of CareFirst that will generate additional revenue to pay for health coverage plans for District residents, an increase in the 911 fees to fund 911 services, and residential deed transfer and recordation tax rate increases to fund housing initiatives.

GENERAL FUND BALANCE USE

The FY 2007 proposed local funds operating budget includes a proposal to use $219.8 million of fund balance. The use of these monies is for non-recurring expenditures:

- $100 million for school modernization in FY 2007,
- $81.5 million for paygo capital to fund various capital projects,
- $4.7 million for transfer to the trust fund for Other Post Employment Benefits (OPEB) for FY 2007 costs, and
- $32.6 million for various one-time operating program enhancements.

Beginning Fund Balance, General Fund.

As recently noted in the FY 2005 Comprehensive Annual Financial Report (CAFR), the District concluded FY 2005 operations with a $1.585 billion fund balance (i.e., accumulated surplus). For the FY 2006 approved budget, $591.6 million of the fund balance ($466.9 million in local funds and $124.7 million in special purpose funds) was appropriated for use.

This FY 2005 ending fund balance consisted of $1.277 billion (or 80.5%) in local funds and $308 million (or 19.5%) in special purpose revenue funds (O-Type). Of the portion in local funds, $506.9 million was reserved in congressionally-imposed emergency/contingency cash reserves ($253.4 million) and debt service escrow ($253.5 million).

Based on current revenue and expenditure estimates for local funds in FY 2006 and the Mayor's proposal to convert O-Type balance to unreserved and undesignated fund balance, not considering the potential impact from congressional supplemental appropriations or end-of-year CAFR audit adjustments, the local fund is expected to end FY 2006 with an operating surplus of $52.7 million. This will increase the local fund balance.

As exhibited in Table 2, the fund balance for local funds is projected to be $879 million at the end of FY 2006. Approximately 58 percent of this fund balance represents on-going, required commitments such as congressional and bond covenant reserves (assuming the amount required for these two purposes remains relatively steady at the $506 million required in FY 2006). The remaining 42 percent of the balance 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.

Table 2
FY 2006 Local Fund Balance Analysis
($ in thousands)

Beginning Fund Balance (October 1, 2005)	$ 1,277,000
Local Appropriated for FY 2006	(466,930)
Projected FY 2006 Local Operating Margin	52,709
Conversion of O type to Local	16,449
Projected Ending Fund Balance (September 30, 2006)	$ 879,228

Financing the Local Budget Request

The Mayor's proposed budget for FY 2007 utilizes $219.8 million from the accumulated fund balance. Table 3 demonstrates that the planned drawdown of fund balance will reduce the accumulated surplus for local funds to a projected $661.3 million by the end of FY 2007.

Table 3
FY 2007 Local Fund Balance Analysis
($ in thousands)

Projected Beginning Fund Balance (October 1, 2006)	$ 879,228
Appropriated for FY 2007	(219,792)
Projected FY 2007 Operating Margin	1,832
Projected Ending Fund Balance (September 30, 2007)	$ 661,268

PROPOSED FY 2007 GROSS FUNDS BUDGET

The proposed FY 2007 gross funds operating budget is $7.503 billion, an increase of $150.9 million, or 2.1 percent, over the approved FY 2006 gross funds budget of $7.352 billion. This expenditure increase is primarily due to higher funding levels for federal grants ($ 90.1 million) including Medicaid, and in programs supported by user fees, fines, the dedicated portion of deed recordation and transfer taxes (for housing production), and other special purpose revenues ($ 68.9 million). The local and non-local funding components of the proposed FY 2007 gross funds budget and the changes from FY 2006 are summarized in Table 4 below.

Table 4
FY 2007 Gross Funds Budget By Fund Type
($ in millions)

Fund Type	FY 2006	FY 2007	Change	% Change
Local	$ 4,949.5	$ 4,950.8	$ 1.3	0.03%
Federal	1,939.0	2,029.1	90.1	4.6%
Private Grants	16.2	6.8	(9.4)	(58.0)%
Special Purpose (O Type)	447.1	516.0	68.9	15.4%
Total Gross Funds	**$ 7,351.8**	**$ 7,502.7**	**$ 150.9**	**2.1%**

CAPITAL IMPROVEMENTS PLAN

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 2007-2012 CIP is $1.995 billion for all sources (excluding the Highway Trust Fund). This six-year plan includes a net increase in budget authority of $1.637 billion ($1.698 billion of new budget authority offset by $61 million of rescissions). The increased budget authority will be financed by general obligation (G.O.) bonds, the Master Equipment Lease Program, asset sales, and alternative financing vehicles such as Certificates of Participation. The FY 2007 capital program includes $581.5 million in planned capital expenditures financed by

$400 million in newly issued G.O. bonds and $181.5 million of pay-as-you-go (PAYGO) transfers from the general fund balance.

The leadership provided by the Mayor and the Council, along with the hard work of the Office of the Chief Financial Officer, allowed us to produce this balanced budget for FY 2007. As a result, we are certifying that the FY 2007 budget and financial plan, as proposed, is balanced for FY 2007 and beyond. We look forward to continuing to work with you and the Council during the forthcoming budget deliberations.