

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



Jeffrey S. DeWitt
Chief Financial Officer

January 13, 2017

The Honorable Muriel Bowser
Mayor of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 306
Washington, DC 20004

The Honorable Phil Mendelson
Chairman, Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Re: Fiscal Times Article on Fiscal Health Index for Large Cities, District of Columbia in Top 10

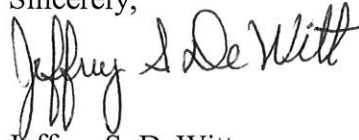
Dear Mayor Bowser and Chairman Mendelson:

On January 9, 2017, the Fiscal Times released their “Fiscal Health” index for U.S. cities with populations greater than 200,000 based on information from their 2015 Comprehensive Annual Financial Reports. I am very proud to announce that the District of Columbia was ranked in the top 10 (9th overall) out of 116 cities. The full report is attached that includes the rankings for all cities.

The factors that were considered in the index are fund balances, the long-term obligations related to debt, pensions and retiree health care, changes in unemployment, and changes in property values. The District of Columbia has the best funded pensions and retirement health care benefits of any sized city in the country, a growing property tax base, decreasing unemployment and strong reserves. With the release of the 2016 Comprehensive Annual Financial Report at the end of this month, all of these metrics will increase which would result in an even stronger score and ranking than indicated by this report that is based on 2015 data.

This independent ranking, based on important financial metrics, demonstrates how far the District of Columbia has come since the near insolvency of the mid-1990s to today where our fiscal strength now ranks among the strongest in the United States. I want to personally thank the Mayor and the District Council for their constant commitment to fiscal health and all agency staff, particularly the staff of the Office of the Chief Financial Officer, for their day to day work that has helped achieved this ranking.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey S. DeWitt". The signature is fluid and cursive, with the first name "Jeffrey" being more prominent.

Jeffrey S. DeWitt

Attachments

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EXCLUSIVE: Chicago, New York in Worst Financial Shape Among Large US Cities

 www.thefiscaltimes.com/2017/01/09/EXCLUSIVE-Chicago-New-York-Worst-Financial-Shape-Among-Large-US-Cities

By Marc Joffe

Chicago and New York rank at the bottom of a new analysis of fiscal strength based primarily on data from 2015 financial reports issued by the cities themselves. The analysis includes 116 U.S. cities with populations greater than 200,000. [See the full rankings here.](#)

Chicago's position at the bottom of the ranking is no surprise to anyone who follows municipal finance. The Windy City has become a poster child for financial mismanagement, having suffered a series of ratings downgrades in recent years. Aside from having thin reserves and large volumes of outstanding debt, Chicago is notorious for its underfunded pension plans.

For example, the city's Municipal Employees' Annuity and Benefit Fund (MEABF) [reported](#) \$4.7 billion in assets and \$14.7 billion of actuarially accrued liabilities at the end of 2015, representing a funded ratio of just 33 percent. The actuarial calculations rely on a controversial practice of discounting future benefits at a rate of 7.5 percent, which is the assumed return on the fund's portfolio return. If a more conservative assumption was employed, MEABF's liabilities would be higher and its funded ratio lower.

Related: [See the Full 2017 Fiscal Strength Index Ranking of 116 US Cities](#)

Because the ranking is based on 2015 financial audits — you can see the full data behind the scores [here](#) — it does not take into account more recent news. Last summer, Mayor Rahm Emmanuel [announced a plan](#) to resolve MEABF underfunding by raising water and sewer rates and increasing employee contributions to the system. Because these changes don't take effect until this year, it will take some time for them to impact Chicago's audited financial statements and their fiscal health scores.

While Chicago's place at the bottom of the list is unsurprising, New York City's position — just one step above — was unexpected. An extended bull market and soaring real estate prices have pumped money into the Big Apple's coffers. Total municipal revenues rose from [\\$60 billion in 2009](#) to \$81 billion in 2015. But the city has been spending the money almost as quickly as it has been coming in.

At the end of its 2015 fiscal year, the city's general fund reserves amounted to just 0.67 percent of expenditures — well below the Government Finance Officers Association recommendation of 16.67 percent (equivalent to two months of spending). A city's general fund is roughly analogous to an individual's checking account.

Related: [The Financial Health of All 50 States, Ranked](#)

New York City also carries a very heavy debt burden. According to a [report](#) issued by City Comptroller Scott Stringer, New York's per capita debt greatly exceeds that of all other large U.S. cities, and is even 50 percent higher than that of Chicago. But the comptroller's report only focuses on bonded debt. Government financial accounting standards require cities to report other long-term obligations such as pensions, compensated absences for municipal employees (accrued sick and vacation leave payable at retirement) and "other post-employment benefits" (or OPEB).

It is New York's OPEB obligation that really sets the Big Apple apart. In 2015, the city's OPEB liability was \$85 billion — roughly equivalent to its bonded debt.

The large OPEB liability is driven by the size of the city's workforce and the relatively high cost of health care in New York. According to its most recent [OPEB Actuarial Report](#), the city is providing retiree health benefits to 222,000 retirees, while another 315,000 current and separated employees are potentially eligible for future benefits. In 2015, benefits per retiree ranged as high as \$17,000 a year (for workers who were not yet Medicare-eligible and who had eligible dependents).

High debt burdens and insufficient general fund reserves are associated with [episodes of fiscal distress](#), which are marked by employee furloughs, layoffs and, in extreme cases, bond defaults and bankruptcy filings. Still, if New York City continues to record strong revenue growth, it can shoulder its sizeable obligations. With the stock market perking up in the aftermath of Donald Trump's election victory, the odds of a fiscal crisis in the near term appear long — but a bear market could place the city in jeopardy.

Related: Is Your State the Next Puerto Rico?

Such was the case back in 1933, when New York City briefly [defaulted](#) on its municipal bond debt. In the aftermath of the stock market crash and the Great Depression, city revenues declined amidst a rash of property tax delinquencies. The city faced a second fiscal meltdown in 1975, when the federal government refused to provide a bailout and the state declared a moratorium on certain city bond payments. Although the default occurred during another bear market, the proximate cause of the crisis was rising interest rates. At the time, the city relied heavily on short-term debt, which became more difficult and expensive to roll over as inflation spiked in the early 1970s.

Aside from New York and Chicago, three other cities received scores below 40: Reno, St. Louis and Toledo. All three of these cities had relatively small general fund balances and high debt burdens.

One Perfect Score

At the other end of the spectrum, with a perfect score of 100, is Irvine, California — a [rapidly growing](#) “edge city” south of Los Angeles. Rising revenues have resulted in a series of budget surpluses that have bulked up the city's reserves. In 2015, the city reported over \$700 million of cash and investments on its balance sheet, more than enough to fund two years of government spending. Irvine is also unique among large American cities in that it has no outstanding bond obligations. All municipal borrowing in Irvine is done by special districts, which levy supplemental taxes to service their debt.

Two cities in California's Inland Empire, Fontana and Moreno Valley, took the second and third spots. Both cities have modest debt loads and large general fund reserves.

Related: The Worst States for Retirement 2016

These high-ranking cities are both located within a short drive from San Bernardino, which filed for bankruptcy protection in 2012. Their presence near the top of the list is testimony to California's economic recovery, but it also suggests that sound financial management practices make a difference. Although Fontana and Moreno Valley faced similar challenges to San Bernardino during the Great Recession, both of these cities avoided a fiscal crisis — apparently because officials showed greater discipline with respect to spending and borrowing.

Keep in mind, though, that it is not necessary for a city to have a near-perfect score to be regarded as a good fiscal steward. Any score higher than 70 could reasonably be interpreted as a level of fiscal health sufficient to justify a triple-A credit rating.


Bankruptcies and Delinquencies

The universe of cities we analyzed includes three that filed for bankruptcy since the Great Recession: Stockton and San Bernardino, which filed in 2012, and Detroit which filed in 2013. Both Stockton and Detroit have emerged from bankruptcy, while San Bernardino is close to doing so. All three cities have scores in the middle of the pack. Detroit and Stockton benefited from court-mandated reductions in their debt, while San Bernardino has been running general fund surpluses during its extended time in bankruptcy.

Of the 116 cities we analyzed, three had not published 2015 Comprehensive Annual Financial Reports by the end of 2016. One of them, Baltimore, will publish its 2015 CAFR in early 2017, which is quite late. Federal regulations require state and local governments that receive over \$750,000 in federal funds to file audited financial statements [no later than nine months](#) after their fiscal year end. Since Baltimore's fiscal year ends on June 30, it should have filed its 2015 CAFR no later than March 31, 2016.

[See the full ranking of 116 cities here.](#) To see the data behind the scores, please visit the new [Center for Municipal Finance website](#).

How Strong Are Your City's Finances? 116 US Cities Ranked

 www.thefiscaltimes.com/2017/01/09/How-Strong-Are-Your-Citys-Finances-116-US-Cities-Ranked

By Marc Joffe

To compile this Fiscal Health Index, we looked at 116 U.S. cities with populations greater than 200,000, using data from 2015 financial reports issued by the cities themselves. Our scoring system is described in a new [working paper](#). It uses five factors:

1. the ratio of a city's general fund balance to its expenditures (40 percent weighting)
2. the ratio of its long term obligations (including OPEB but excluding pensions) to total government-wide revenues (30 percent weighting)
3. the ratio of actuarially determined pension contributions to total government-wide revenues (10 percent weighting)
4. change in local unemployment rate (10 percent weighting)
5. change in property values (10 percent weighting).

Related: Chicago, New York in Worst Financial Shape Among Large US Cities

Read the full methodology [here](#). Click the table headers below to sort by ranking, city name, state or fiscal strength score. Click each city's name to get more details about its score.

Ranking	City	State	Fiscal strength Score
1	Irvine	California	100
2	Fontana	California	99
3	Moreno Valley	California	97
4	Huntington Beach	California	94
5	Santa Ana	California	94
6	Glendale	California	93
7	Boston	Massachusetts	92
8	Fayetteville	North Carolina	89
9	Washington	District of Columbia	88
10	Boise	Idaho	88
11	Chula Vista	California	87
12	Fremont	California	87
13	Durham	North Carolina	87
14	Oklahoma City	Oklahoma	87

Ranking	City	State	Fiscal strength Score
15	Chesapeake	Virginia	86
16	Aurora	Colorado	86
17	Gilbert	Arizona	85
18	Stockton	California	85
19	Minneapolis	Minnesota	84
20	Chandler	Arizona	84
21	Greensboro	North Carolina	84
22	Columbus	Georgia	84
23	St. Petersburg	Florida	83
24	San Diego	California	82
25	Sacramento	California	82
26	Oakland	California	82
27	Bakersfield	California	82
28	Plano	Texas	81
29	Las Vegas	Nevada	81
30	Seattle	Washington	80
31	Tacoma	Washington	80
32	Lexington	Kentucky	80
33	San Francisco	California	76
34	Lincoln	Nebraska	75
35	Arlington	Texas	75
36	Irving	Texas	75
37	Madison	Wisconsin	74
38	Miami	Florida	74
39	Rochester	New York	74
40	Des Moines	Iowa	73
41	Louisville	Kentucky	73

Ranking	City	State	Fiscal strength Score
42	Modesto	California	73
43	Phoenix	Arizona	73
44	Spokane	Washington	72
45	Denver	Colorado	72
46	Indianapolis	Indiana	72
47	Memphis	Tennessee	72
48	San Jose	California	72
49	Detroit	Michigan	72
50	Long Beach	California	71
51	Buffalo	New York	71
52	St. Paul	Minnesota	71
53	Birmingham	Alabama	71
54	Cincinnati	Ohio	71
55	Virginia Beach	Virginia	71
56	Charlotte	North Carolina	70
57	Raleigh	North Carolina	70
58	Honolulu	Hawaii	70
59	Baton Rouge	Louisiana	69
60	Tampa	Florida	69
61	Oxnard	California	68
62	Atlanta	Georgia	68
63	Tulsa	Oklahoma	67
64	Winston-Salem	North Carolina	67
65	Pittsburgh	Pennsylvania	66
66	Riverside	California	65
67	Fort Worth	Texas	65
68	San Antonio	Texas	65

Ranking	City	State	Fiscal strength Score
69	Fresno	California	65
70	Baltimore	Maryland	64
71	Albuquerque	New Mexico	64
72	Orlando	Florida	63
73	Henderson	Nevada	63
74	Laredo	Texas	63
75	Lubbock	Texas	62
76	Milwaukee	Wisconsin	62
77	Glendale	Arizona	62
78	Jersey City	New Jersey	61
79	Yonkers	New York	61
80	Corpus Christi	Texas	61
81	Tucson	Arizona	60
82	Richmond	Virginia	60
83	Garland	Texas	60
84	Scottsdale	Arizona	59
85	Mesa	Arizona	59
86	Anaheim	California	58
87	Norfolk	Virginia	57
88	San Bernardino	California	57
89	Nashville	Tennessee	56
90	Aurora	Illinois	56
91	Newark	New Jersey	56
92	North Las Vegas	Nevada	56
93	Hialeah	Florida	55
94	Austin	Texas	55
95	Colorado Springs	Colorado	54

Ranking	City	State	Fiscal strength Score
96	Los Angeles	California	54
97	New Orleans	Louisiana	54
98	Anchorage	Alaska	54
99	Wichita	Kansas	52
100	Omaha	Nebraska	51
101	Kansas City	Missouri	50
102	Jacksonville	Florida	50
103	Portland	Oregon	50
104	Dallas	Texas	49
105	Houston	Texas	49
106	Cleveland	Ohio	49
107	Columbus	Ohio	49
108	Montgomery	Alabama	48
109	El Paso	Texas	42
110	Fort Wayne	Indiana	42
111	Philadelphia	Pennsylvania	41
112	St. Louis	Missouri	37
113	Reno	Nevada	36
114	Toledo	Ohio	36
115	New York	New York	26
116	Chicago	Illinois	25

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- **Marc Joffe**

Marc Joffe, Director of Policy Research for the California Policy Center, has written for the Mercatus Center at George Mason University, the Reason Foundation and the Haas Institute at UC Berkeley. Previously, he was a senior director at Moody's Analytics.

