PUBLIC BRIEFING ON FISCAL YEAR 2020 PROPOSED BUDGET AND FINANCIAL PLAN

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

The Honorable Phil Mendelson, Chairman

March 22, 2019, 10:00 am
John A. Wilson Building
Council Chambers

Testimony of
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Good morning, Chairman Mendelson and Members of the Committee of the Whole. I am Jeffrey DeWitt, Chief Financial Officer of the District of Columbia. I am pleased to appear before you today to testify on the Fiscal Year 2020 Proposed Budget and Financial Plan. The Fiscal Year 2020 Proposed Budget includes $8.6 billion in Local funds and $15.5 billion in Gross funds (excluding Intra-District funds).

The Office of the Chief Financial Officer (OCFO) worked closely with the Mayor's executive leadership team, the City Administrator's Office of Budget and Performance Management staff, and agency program staff to produce a balanced budget and five-year financial plan that reflects the Mayor's priorities. As indicated in my certification letter contained in the budget books, I have certified that the FY 2020 Budget and Financial Plan, as proposed, is balanced.

REVENUE OUTLOOK

The revenue outlook for the FY 2020 Budget and Financial Plan shows revenue growth that continues to be healthy but is expected to be slower than prior years. Population, employment and income growth will be positive over the financial plan but slower than previously anticipated due to uncertainties surrounding the federal government. The impact of the recent record-length federal government shutdown, outlined in detail in our revenue chapter, reminds us that the federal government remains a significant factor in the District’s economy.

There is a high degree of uncertainty on what action Congress will take regarding discretionary spending caps that are set to return in FY 2020. Reductions in mandatory spending would adversely affect the District’s economy. The federal tax reform legislation, which provided an immediate boost to economic growth last year, adds to the national debt that may impact interest rates in the future. Additional efforts to control domestic spending and possible major restructuring of federal agencies would also adversely impact federal spending in the District.

On a positive note, Amazon’s decision to bring its second headquarters to the neighboring jurisdiction of Arlington, Virginia will have the likely effect of bringing related jobs and more residents to the District of Columbia. Based on our preliminary estimates, the projected slower growth is partially offset by benefits from this development. However, the exact timing and impact on the District of this development is uncertain, as the implementation will not begin until the end of this fiscal year.

Developments outside of the local economy also add some uncertainty to our revenue outlook. The increased tension in global trade will not affect the District directly, but could slow the national economy, and ultimately the District’s economy. Volatility in the stock market, and other financial market issues such as tightening of Federal Reserve monetary policy measures, contribute to uncertainty. Other sources of uncertainty are possible economic disruptions arising from economic and political developments in other parts of the world as well as potential national security events. Experience has shown that three of the District's most volatile revenue sources—deed taxes, taxes on corporate profits, and individual capital gains—can be adversely affected quite quickly by developments in the nation's economy and capital markets.

Because of all these factors, our outlook is somewhat cautious, particularly as it relates to federal government spending policies and their impact on the District's economy and growth of total jobs and population in the city. We will continue to closely watch the key economic indicators for deviations from this forecast that might impact the financial plan.

BUDGET OVERVIEW

The $8.1 billion estimate for FY 2020 Local Fund revenue, prior to policy proposals included in the budget, includes $16 million in higher revenue mainly from two major legislative changes, increasing revenue growth to 4 percent. These changes required remote vendors to collect sales tax on purchases made by District residents and the introduction of sports wagering in the District. Total General

Fund revenue in FY 2020 is $9.3 billion, an increase of $332.1 million over FY 2018, before policy proposals.

Various policy initiatives increase General Fund revenue by $126.9 million in FY 2020, and by an average of $144.4 million annually through the remainder of the Financial Plan. A major initiative in this budget is the Deed Recordation and Transfer Taxes Amendment Act that increases each of these taxes from 1.45 percent to 2.5 percent for a total of 5 percent on commercial real estate transactions greater than $2 million. This will provide $90.8 million in additional revenue in FY 2020, $12.9 million of which is dedicated to the Housing Production Trust Fund.

Other policy proposals include the repeal of a reduction in the commercial property tax rate scheduled to take effect October 1, 2019, that was included as part of the Internet Sales Tax Act and the repeal of the dedication of a portion of the District's sales tax revenue to the Commission on the Arts and Humanities that took effect on October 1, 2018 making this revenue available to Local funds. The Proposed Budget and Financial Plan also funds several laws that were passed subject to appropriation, including an increase of the maximum credit and income limits for the Schedule H real property tax relief and making the early family credit permanent.

EXPENDITURES

Local Funds

The Mayor's Proposed FY 2020 Budget includes approximately $8,580.6 million in spending supported by $8,581.1 million of resources, with an operating margin of $0.5 million.

Gross Funds

The proposed FY 2020 gross funds operating budget (excluding intra-District funds) is $15.5 billion, an increase of $872.6 million, or 6.0 percent, over the FY 2019 approved gross budget of $14.6 billion.

MAJOR COST DRIVERS – LOCAL FUNDS

Overall, the proposed FY 2020 Local funds budget increased by $727.8 million, or 9.3 percent, over FY 2019. One component of the increase in the Local funds is the shift of several functions – major portions of the budgets for the WMATA Subsidy and the Commission on the Arts and Humanities – from Dedicated Taxes, in FY 2019, to Local funds, in FY 2020.

Primary Cost Drivers

- **Washington Metropolitan Area Transit Authority:** $224.5 million increase over FY 2019, primarily due to (1) a transfer of $192.1 million of Dedicated Taxes, which funded the FY 2019 WMATA operating subsidy, to the WMATA capital subsidy in FY 2020, requiring increased expenditures in Local funds to restore the operating subsidy, (2) $22.3 million to accommodate the 3 percent subsidy growth rate, (3) $13.5 million for the Kids Ride Free program, and (4) additional funding for increased cost of debt service compared to FY 2019.

- **Repayment of Loans and Interest:** $61.9 million increase over FY 2019, due to borrowing for capital projects.

- **District of Columbia Public Schools:** $47.2 million increase over FY 2019, primarily due to a 2.2 percent increase to the student foundation level of $10,658 to the FY 2020 level of $10,891.

- **Department of Health Care Finance:** $46.7 million increase over FY 2019 supports over $8 million for a projected 4.3 percent increase in the childless adult population in the same year the federal match rate declines from 93 percent to 90 percent. In addition, enrollment of Children's Health Insurance Program (CHIP) beneficiaries is projected to grow by over 12 percent in FY 2020, and the federal match rate declines from 100 percent to 90.5 percent, which will have an impact of nearly $5 million. This additional funding also supports a 16.4 percent, or approximately $15 million, rate increase for the Alliance program to ensure the Alliance MCO rates are actuarially sound. Finally, the balance supports numerous other increases necessitated by the projected 3.7 percent increase in total Medicaid enrollment, and other increases associated with the increased cost of individual services provided to District residents.

- **Not-for-Profit Hospital Corporation Subsidy:** $30 million increase over the FY 2019 approved budget is primarily due to a continued decline in patient activity and census.
- **Workforce Investments**: $37.8 million increase is to support proposed union and nonunion pay agreements.
- **Commission on the Arts and Humanities:** $30.6 million increase is primarily due to a transfer of $28.1 million of Dedicated Taxes in FY 2019 to Local funding in FY 2020.

CAPITAL IMPROVEMENTS PLAN

The District is addressing its continuing infrastructure needs through its Capital Improvements Plan (CIP). The total proposed appropriation request for the FY

2020 through FY 2025 CIP is $8.4 billion from all sources. The majority of the capital budget will be financed with municipal bonds totaling $5.1 billion, along with Pay-As-You-Go (Paygo) transfers from the General Fund, Federal Grants, a local match to the grants from the Federal Highway Administration, and local transportation fund revenue. Beginning with FY 2020, the District will increase its capital contribution to WMATA by $178.5 million as its share of a region-wide commitment to increase capital funding by $500 million per year. The District's contribution grows by 3 percent annually thereafter. The additional contribution will provide the necessary annual revenue to WMATA to fund improvements for a state of good repair. This increased contribution to WMATA totals $1.2 billion through the FY 2025 CIP planning period.

The proposed capital budget for FY 2020 of $2.1 billion of planned capital expenditures will be financed by $1.3 billion in new I.T. or G.O. bonds, $284.9 million from new short-term bonds, $234.9 million in Paygo, $176.1 million in federal grants and payments, $27.6 million in the Local Match to the Federal Highway Administration grants, and $45.3 million from the Local Transportation Revenue fund. Debt service through the CIP period remains below the 12 percent debt cap.

MULTI-YEAR FINANCIAL PLAN

As in the past, the plan shows substantial growth in debt service costs during the plan period to support the $8.4 billion CIP through FY 2025. Because of the growth in these costs, labor costs and other non-capital cost growth must be constrained throughout the financial plan. Careful monitoring of these costs in the operating budget, as well as execution of the capital plan, is required to ensure the plan remains balanced in the future.

CONCLUSION

I'd like to thank the Office of Budget and Planning, the Associate Chief Financial Officers and their staffs, the Office of Revenue Analysis and others in the OCFO, who worked with the Mayor's team to produce a balanced budget. I now look forward to working with the Council during the upcoming budget deliberations.