PUBLIC BRIEFING ON FISCAL YEAR 2021 PROPOSED BUDGET AND FINANCIAL PLAN

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

The Honorable Phil Mendelson, Chairman

May 19, 2020, 12:00 pm
Virtual Session

Testimony of
Jeffrey S. DeWitt
Chief Financial Officer
Government of the District of Columbia

Good afternoon, 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 2021 – FY 2024 Proposed Budget and Financial Plan. The FY 2021 Proposed Budget includes $8.5 billion in Local funds and $16.7 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. The FY 2021 policy budget reflects the executive's funding priorities and determinations.

The FY 2021 – FY 2024 Budget and Financial Plan makes prudent use of reserves, utilizes federal funding, reduces certain projected program expenditures, and refinances debt. Therefore, after careful review, I certify that the FY 2021 – FY 2024 Budget and Financial Plan is balanced.

REVENUE OUTLOOK

The District is experiencing a severe economic downturn that began last March, with District real gross domestic product not expected to regain its prior peak until the end of 2021. Like other state and local governments throughout the United States, in mid-March, the District government closed schools, stores, hotels, restaurants and other workplaces, and placed severe restrictions on travel and social gatherings to control the spread of COVID-19. Initial District unemployment claims have surged in the last month as hotels, restaurants, other retail, and personal service establishments have either closed or sharply reduced operations. The forecast assumes that the restrictions on social gatherings and other activities will continue through the Spring, and that District economic activities will then begin to return slowly over subsequent months. It assumes that District jobs, wages, and the stock market will decline in calendar year 2020 and recover by the end of calendar year 2021.

There is a high degree of uncertainty around the forecast because the rapid spread of the virus, and the measures to control it, are without precedent in recent history. One source of uncertainty is how and when restrictions will be lifted both locally and nationally--and how the public and business entities will respond when the restrictions are lifted. Another source of uncertainty is the severity of the disruption to the national economy, which has already experienced a steep rise in unemployment and a 34 percent decline in stock prices in the first few weeks of the public health emergency. Although stock prices have staged a recovery recently, they have been characterized by large daily price swings. While the federal government has enacted several measures designed to aid individuals and businesses, it is unclear how successful these measures will be in stabilizing the economy and encouraging meaningful recovery. This estimate will be revisited in August at which time more information will be available.

All revenue sources are affected by the current downturn. The largest revision is to sales tax revenue, reflecting the decline in revenue from hotels, restaurants, and "brick and mortar" retail. As residents stay home and commuting is significantly curtailed, people are concerned about their personal health and safety, the duration of the restrictions, and possible job losses. As a result, consumers have reduced their spending significantly, and while there is more spending online and for takeout or delivery, overall spending has declined.

This economic outlook is based on a number of sources, including: cash collection reports; federal data on District population, employment and income;

private data sources on housing, commercial real estate and hotels; and forecasts of the U.S. economy prepared by the Congressional Budget

Office and private-sector economists, including the Blue Chip consensus forecast of 50 private sector economists and two private-sector firms (IHS Markit and Moody's Analytics) that also prepare forecasts of the District's economy.

BUDGET OVERVIEW

The $7.92 billion Local funds revenue estimate for FY 2021 is an increase of $186.2 million (2.4%) from the FY 2020 estimates (revised April 24, 2020). Including dedicated and special purpose revenues and policy initiatives, FY 2021 General Fund revenue is $9.21 billion, $426.3 million more than FY 2020. Various policy initiatives increase General Fund revenue by $25 million in FY 2020, $78 million in FY 2021, and $79 million in FY 2022.

EXPENDITURES

Local Funds

The Mayor's Proposed FY 2021 Budget includes approximately $8,542.0 million in spending supported by $8,542.5 million of resources, with an operating margin of $0.5 million, as shown in Table 1.

Table 1	
FY 2021 Proposed Budget Summary	
Local Funds	
($ in millions)	
Taxes	$ 7,425.1
Non-Tax Revenues	440.0
Lottery	51.4
All Other Resources	19.3
Revenue Proposals	74.5
Fund Balance Use	532.3
Total Local Fund Resources	**$ 8,542.5**
Local Expenditures	**$ 8,542.0**
Projected FY 2021 Operating Margin	**$0.5**

Gross Funds

The proposed FY 2021 gross funds operating budget (excluding intra-District funds) is $16.7 billion, an increase of $1.3 billion, or 8.4 percent, over the FY 2020 approved gross budget of $15.4 billion. The largest portion of this increase is due to the required budget authority in Enterprise and Other Funds related to the Universal Paid Leave (UPL) and Unemployment Insurance (UI) programs, followed by increases in federal payments and grants related to COVID-19. The Local and non-Local funding components of the proposed FY 2021 gross budget and the changes from FY 2020 are summarized in Table 2 below.

Table 2				
FY 2020 vs. FY 2021 Gross Funds Budget by Fund Type				
($ in millions)				
Fund Type	**FY 2020 District's Approved**	**FY 2021 Mayor's Proposed**	**Change**	**% Change**
Local	$ 8,567.9	$ 8,542.0	($25.8)	-0.3%
Dedicated Tax	566.3	528.0	(38.4)	-6.8%
Special Purpose	771.0	754.8	(16.2)	-2.1%
Subtotal, General Fund	**$ 9,905.1**	**$ 9,824.8**	**($80.4)**	**-0.8%**
Federal	3,474.0	4,034.1	560.1	16.1%
Private	8.3	4.8	(3.6)	-43.0%
Total, Operating Funds	**$ 13,387.5**	**$ 13,863.6**	**$ 476.2**	**3.6%**
Enterprise and Other Funds (including from Dedicated Taxes)	1,993.7	2,804.1	810.4	40.6%
Total Gross Funds	**$ 15,381.2**	**$ 16,667.7**	**$ 1,286.5**	**8.4%**

Note: *Details may not add to totals due to rounding*

MAJOR COST DRIVERS – LOCAL FUNDS

Overall, the proposed FY 2021 Local funds budget decreased by $25.8 million, or 0.3 percent, compared to FY 2020. Table 3 provides a snapshot of major cost drivers for the increase.

Table 3	
Mayor's FY 2021 Proposed Budget	
Cost Drivers - Local Funds (in millions)	**Amount**
Major Changes:	
District of Columbia Public Schools	$ 76.9
Department of Health Care Finance	38.3
District of Columbia Public Charter Schools	35.8
Metropolitan Police Department	17.5
Fire and Emergency Medical Services Department	(18.0)
Office of the State Superintendent of Education	(18.2)
Housing Production Trust Fund Subsidy	(21.1)
Workforce Investments Account	(89.1)

Primary Cost Drivers

- **District of Columbia Public Schools:** $76.9 million over FY 2020 is primarily attributed to a 3.0 percent increase to the Uniform Per Student Funding Formula (UPSFF) Foundation level, which is $11,310 for FY 2021, in comparison to the FY 2020 UPSFF Foundation level of $10,980.

- **Department of Health Care Finance:** 38.3 million over FY 2020 is primarily attributed to one-time enhancements that support increased enrollment in healthcare services, and physicians' supplemental payments.

- **District of Columbia Public Charter Schools:** $35.8 million over FY 2020 is primarily attributed to a 3.0 percent increase in the UPSFF.

- **Metropolitan Police Department**: $17.5 million over FY 2020 is primarily attributed to additional support of the Patrol Services bureau, which will afford MPD the ability to coordinate crime prevention and reduction efforts in the seven police districts.

- **Fire and Emergency Medical Services Department**: $18.0 million reduction compared to FY 2020 is primarily the result of shifting allowable Local fund expenses to the one- time COVID-19 Relief Fund to pay these costs.

- **Office of the State Superintendent of Education:** $18.2 million reduction compared to FY 2020 is primarily the result of a reduction in various nonpersonal services items.
- **Housing Production Trust Fund Subsidy**: $21.1 million reduction compared to FY 2020 is primarily the result of partial removal of one-time funding.
- **Workforce Investments Account**: $89.1 million reduction is the result of removing funding for Cost of Living Adjustments (COLA) for both union and non-union employees.

MULTI-YEAR FINANCIAL PLAN

The economic effects of the pandemic on FY 2020 have been significant and require a revised FY 2020 budget that addresses the revenue shortfall. The April 2020 revised revenue estimate for FY 2020 was $7.92 billion, a decrease of $476 million from the revenue (including policy proposals) on which the FY 2020 Approved Budget was based. A further $7 million decrease in transfers of excess Tax Increment Financing revenues to the Local fund means the net decrease in available resources is $483 million, compared to the approved budget. The proposed FY 2020 revised budget makes several changes to address the revenue shortfall and spending pressures to date. The revised budget reduces Local fund expenditures by a net $309 million by:

- reducing $189 million of agency expenditure budgets;
- shifting $214 million of spending to federal funds, using both CARES Act funds and Public Assistance funding through the Federal Emergency Management Agency;
- increasing spending in certain agencies by $57 million to address spending pressures, required federal match, and other issues; and
- using $37 million to replenish the Contingency Cash Reserve Fund, for those uses that are not related to COVID-19.

This net $309 million of expenditure reductions, combined with $149 million of additional fund balance use and an additional $25 million of revenue derived by delaying defeasance (early retirement) of Ballpark bonds, closed the $483 million gap for FY 2020.

The District's FY 2021- FY 2024 Budget and Financial Plan includes reductions to programs and initiatives to address the precipitous second quarter reduction in revenues, which is the direct result of the COVID-19 pandemic. To partially offset the drop in revenues and ensure that necessary services continue, the District utilizes its substantial reserves including the Fiscal Stabilization Reserve Fund; shifts allowable Local fund expenditures to federal COVID Relief funds, both grants and Federal Payments, for COVID-related expenses through December 31, 2020 or the 1st quarter of FY 2021; eliminates COLA increases across the financial plan; and restructures debt to gain more financial flexibility.

The proposed FY 2021 budget uses the District's Fiscal Stabilization Reserve Fund for the first time. In FY 2019, the District reached its goal of 60 days of cash on hand in its four reserve funds. Reaching this goal means the District has resources and flexibility to address emergency needs such as those created by the pandemic. By using the $213 million in the Fiscal Stabilization Reserve Fund in FY 2021, the proposed budget can be balanced without severe reductions in services and staffing. The financial plan shows the Fiscal Stabilization Reserve Fund being replenished in FY 2023 and FY 2024 when revenues recover.

Finally, the proposed budget takes advantage of opportunities to restructure debt and fully utilizes other financial tools to manage liquidity and limit adverse budgetary effects during a recession. The OCFO's Office of Finance and Treasury will restructure existing debt in the current environment of low interest rates to reduce debt service payments in FY 2021 and FY 2022.

CAPITAL IMPROVEMENTS PLAN

The District is addressing its continuing infrastructure needs through its Capital Improvements Plan (CIP). The total appropriation request for the FY 2021 through FY 2026 CIP is $7.9 billion from all sources. Much of the capital budget will be financed with municipal bonds totaling $4.6 billion, along with Pay-As-You-Go (Paygo) transfers from the General Fund, Federal Highway Administration grants, a local match to the Federal Highway Administration grants from the District's Highway Trust Fund, and local transportation fund revenue.

Beginning with FY 2021, the District will increase its capital contribution to WMATA to $183.9 million as its share of last fiscal year's region-wide commitment to increase capital funding by
$500 million per year. The District's contribution is projected to grow 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 $1.7 billion through the FY 2026 CIP period.

The proposed capital budget for FY 2021 of $1.7 billion of planned capital expenditures will be financed by $1.1 billion in new Income Tax Secured or General Obligation bonds including tax- exempt and taxable issuances, $244.1 million in Paygo, $189.9 million in federal grants and payments, $29.6 million in the Local Match to the Federal Highway Administration grants, and $40.3 million from the Local Transportation Revenue fund. Debt service through the CIP period remains below the 12 percent debt cap.

CONCLUSION

During this difficult period, I would like to thank the Mayor and her executive team, along the Office of Budget and Planning, the Associate Chief Financial Officers and their staffs, the Office of Revenue Analysis and others in the OCFO, whose hard work has allowed us to effectively work together to produce a balanced budget. I look forward to continuing to work with you and the Council during the upcoming budget deliberations.