PUBLIC BRIEFING ON FISCAL YEAR 2024 PROPOSED BUDGET AND FINANCIAL PLAN

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

The Honorable Phil Mendelson, Chairman

Friday, March 24, 2023, 12:00 pm
John A. Wilson Building
Council Chambers

Testimony of
Glen Lee
Chief Financial Officer
Government of the District of Columbia

Good afternoon, Chairman Mendelson and Members of the Committee of the Whole. I am Glen Lee, Chief Financial Officer of the District of Columbia. I am pleased to appear before you today to testify on the Fiscal Year 2024 – FY 2027 Proposed Budget and Financial Plan. The FY 2024 Proposed Budget includes \$10.6 billion in Local funds and \$19.7 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 2024 policy budget reflects the executive's funding priorities and determinations.

The FY 2024 – FY 2027 Budget and Financial Plan makes prudent use of federal funding and reserves, and refinances debt. Therefore, after careful review, I certify that the FY 2024 – FY 2027 Budget and Financial Plan is balanced.

REVENUE OUTLOOK

While the District's economy, as measured by gross domestic product, has rebounded from the COVID-19 pandemic period, employment growth is slowing, especially in the hospitality, finance and real estate, and business services sectors. Over the last year, there has been a notable decline in federal employment, which comprises approximately one-quarter of the District’s employment base. Wages growth continues but has slowed in recent months. Real (inflation-adjusted) wages have declined modestly, and personal income growth has stagnated.

The Federal Reserve’s interest rate increases over the past year to contain high inflation, which have already pushed 30-year mortgage rates close to 7%, will likely slow the economy, if not push it into recession. The expansion of remote work, coupled with higher interest rates, poses a serious long-term risk to the District’s economy and its tax base. Tax revenue from commercial properties in the District significantly declined in the past fiscal year. This decline was the main reason for the reduction in overall real property tax revenue in FY 2022. Deed tax receipts from building sales and commercial property loan refinancings, which were among the major sources of FY 2022 excess revenue, have significantly declined, both in number of sales and value so far in FY 2023, and are poised to finish the year weaker than in FY 2022.

The revenue outlook is cautious due to a deteriorating economic outlook and a worsening commercial office real property market. Revenue is expected to decline in FY 2023 and FY 2024 as higher interest rates slow the economy but will remain above pre-pandemic levels for the financial plan period. Although year-to-date revenue collections are above the forecast, driven by strong growth in individual income withholding, sales, and corporate tax revenue, January individual income tax estimated payments are lower, as are receipts from deed taxes and unincorporated business taxes, both of which are barometers of the strength of the real estate market. In addition, first half real property tax payments due in March are expected to be lower than the previous year as expanded levels of remote work have reduced demand for office space, increasing vacancy rates and decreasing the value of commercial office properties, particularly large office buildings.

The most immediate risk to the forecast is a recession (rather that an economic slowdown) triggered by continued rate increases by the Federal Reserve as it tries to contain inflation. Recent bank failures and the possibility of contagion in the banking sector heightens this risk. As already noted, expanded remote work and permanent population decline pose a long-term risk to the District's economy and its tax base. Geopolitical risks include the Russia-Ukraine war and escalating tensions between the US and China with the potential for adverse impacts on energy and food prices as well as the global supply chain and international tourism.

BUDGET OVERVIEW

Revenues

The $9.69 billion Local funds revenue baseline estimate for FY 2024 is a decrease of $23.8 million, or –0.2 percent, over the revised estimate for FY 2023 revenue. Including dedicated taxes, special purpose revenues and policy initiatives, total FY 2024 General Fund revenue in the financial plan is $11.05 billion, a slight increase of $4.2 million, over FY 2023.

Local Funds Expenditures

The Mayor's Proposed FY 2024 Budget includes approximately $10.648.1 million in spending supported by $10.648.6 million of resources, with an operating margin of $0.5 million, as shown in Table 1.

Table 1:
FY 2024 Proposed Budget Summary - Local Funds
($ in Millions)

Taxes	$ 9,070.6
Non-Tax Revenues	575.9
Lottery	41.5
All Other Resources	204.6
Revenue Proposals	38.1
Fund Balance Use	717.9
Total Local Fund Resources	**$ 10,648.6**
Local Expenditures	**$ 10,648.1**
Projected FY 2024 Operating Margin	**$0.5**

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

Gross Funds Expenditures

The proposed FY 2024 gross funds operating budget is $19.7 billion, a decrease of $0.266 billion, or 1.3 percent, under the FY 2023 approved gross budget of $19.9 billion. The Local and non-Local funding components of the proposed FY 2024 gross budget and the changes from FY 2023 are summarized in Table 2 below.

Table 2:
FY 2023 vs. FY 2024 Gross Funds Budget By Fund Type
($ in Millions)

Fund Type	FY 2023 District's Approved	FY 2024 Mayor's Approved	Change	Percentage Change
Local	$ 10,758.4	$ 10,648.1	($110.4)	-1.0%
Dedicated Tax	553.0	622.8	69.8	12.6%
Special Purpose	781.4	791.6	10.2	1.3%
Subtotal, General Fund	**$ 12,092.8**	**$ 12,062.4**	**($30.4)**	**-0.3%**
Federal	4,768.1	5,116.1	348.1	7.3%
Private	13.3	15.1	1.8	13.5%
Total, Operating Funds	**$ 16,874.2**	**$ 17,193.7**	**$ 319.5**	**1.9%**
Enterprise and Other Funds (including from Dedicated Taxes)	3,115.3	2,529.3	-586.0	-18.8%
Total Gross Funds	**$ 19,989.5**	**$ 19,723.0**	**$ (266.4)**	**-1.3%**

MAJOR COST DRIVERS – LOCAL FUNDS

Overall, the proposed FY 2024 Local funds budget decreased by $110.4 million or 1.0 percent, compared to FY 2023. Table 3 provides a snapshot of major cost drivers.

Table 3:

FY 2024 Proposed Budget Cost Drivers - Local Funds

($ in Millions)

Major Changes:	
Workforce Investments	$ 187.3
Repayment of Loans and Interest	101.2
District of Columbia Public Charter Schools	77.6
District of Columbia Public Schools	70.1
Department of General Services	48.4
Department of Health Care Finance	31.9
District Retiree Health Contribution	31.2
Department of Motor Vehicles	13.7
All Others	(671.8)
Total Change	$(110.4)

Primary Cost Drivers – Local Funds

- **Workforce Investments:** $187.3 million increase over FY 2023 is primarily attributed to potential union and non-union labor agreements.

- **District of Columbia Public Charter and Public Schools:** $147.7 million over FY 2023 is primarily attributed to a 5.05 percent increase in the Uniform Per Student Funding Formula (UPSFF) Foundation level, which is $13,046 for FY 2024, in comparison to the FY 2023 Foundation level of $12,419.

    - **District of Columbia Public Charter Schools:** $77.6 million

    - **District of Columbia Public Schools:** $70.1 million

- **Repayment of Loans and Interest:** $101.2 million over FY 2023 is the result of increased debt service to support planned capital financing.

- **Department of General Services:** $48.4 million increase over FY 2023 is primarily related to the inflationary increases in the District's Fixed Costs operations, lease agreements, and preventative maintenance costs.

- **Department of Healthcare Finance:** $32 million increase over FY2023 is primarily attributed to increased rates for Managed Care Organizations (MCO) projections and provider taxes.

- **District Retiree Health Contribution:** $31.2 million increase over FY 2023 is the result of the actuarial valuation of the District of Columbia Annuitants' Health and Life Insurance Employee Contribution Plan.

- **Department of Motor Vehicles:** $13.7 million increase over FY 2023 is primarily attributed to the costs related to the ticket processing contract for the planned expansion of the Automated Traffic Enforcement (ATE) program.

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 2024 through FY 2029 CIP is $10.3 billion from all sources. Much of the capital budget will be financed with municipal bonds totaling $6.3 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.

The proposed capital budget for FY 2024 of $2.5 billion of planned capital expenditures will be financed by $1.8 billion in new Income Tax Secured or General Obligation bonds, $373.8 million in Pay-As-You-Go (Paygo), $258.1

million in federal grants, primarily from the Federal Highway Administration (FHA), $43.5 million for the Local Match to the FHA grants, and $35.3 million from the Local Transportation Revenue fund. Debt service through the CIP period remains below the 12 percent debt cap.

CONCLUSION

I would like to thank Mayor Bowser, the Office of the City Administrator, the Office of Budget and Planning, the Associate Chief Financial Officers and their staffs, the Office of Revenue Analysis as well as others in the OCFO, for their hard work during this challenging period. Working together, we were able to produce a balanced budget. The OCFO team now looks forward to working with the Council during the upcoming budget deliberations.