

**PUBLIC BRIEFING ON  
FISCAL YEAR 2023 PROPOSED  
BUDGET AND FINANCIAL PLAN**

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

**The Honorable Phil Mendelson, Chairman**

**March 18, 2022, 12:00 pm**



**Testimony of  
Fitzroy Lee  
Acting Chief Financial Officer  
Government of the District of Columbia**

Good afternoon, Chairman Mendelson and Members of the Committee of the Whole. I am Fitzroy Lee, Acting Chief Financial Officer of the District of Columbia. I am pleased to appear before you today to testify on the Fiscal Year 2023 – FY 2026 Proposed Budget and Financial Plan. The FY 2023 Proposed Budget includes \$10.7 billion in Local funds and \$19.5 billion in Gross funds (excluding Intra-District).

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, and agency program staff to produce a balanced budget and five-year financial plan. The FY 2023 policy budget reflects your administration’s funding priorities and determinations.

After careful review, I certify that the FY 2023 – FY 2026 Budget and Financial Plan is balanced.

## **REVENUE OUTLOOK**

The District’s economy continues to recover from the pandemic-induced recession of 2020 in large part due to the availability of vaccines and federal and local relief that supported individuals and businesses throughout the year. Some measures, such as wages, personal income, and gross domestic product, recovered quickly, but employment continues to lag largely due to the pandemic’s impact on jobs in the hospitality and business services sectors. Wage growth continues to be strong,

particularly for high-wage employment, and is expected to remain so due to the high demand for workers. While District resident employment is expected to recover this year, employment in the District is not expected to recover fully until FY 2025.

District revenue has recovered to pre-pandemic levels and is expected to grow throughout the financial plan period. Business and individual income taxes continue to be major drivers of the revenue rebound, benefitting from strong growth in wages and salaries and business profits. Sales tax revenue, particularly retail sales from both online and physical establishments, has improved considerably. Restaurant and hotel activity, the component of the general sales tax base hardest hit during the pandemic, is growing but has not yet recovered to pre-pandemic levels. Residential real property tax collections in FY 2022 are expected to grow. Commercial real property tax collections, on the other hand, are expected to decline in FY 2022 and are not expected to return to their FY 2021 peak during the financial plan period, as expanded levels of remote work are expected to reduce demand for office space, limiting growth in the value of commercial office properties.

The forecast assumes a return to pre-pandemic growth, but the outlook remains cautious due to several risk factors. Geopolitical instability following the recent Russian invasion of Ukraine and inflation are the most immediate risks to the forecast. Over the longer term, risks include population decline and more permanent remote work arrangements.

This economic outlook is based on a number of sources, including: cash collection reports; federal data on District population, employment and income; input from industry representatives and national and regional economists and revenue estimators from surrounding jurisdictions; 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 \$9.45 billion Local funds revenue estimate for FY 2023 is an increase of \$359 million, or 3.9 percent, over the revised estimate for FY 2022 revenue. Including dedicated taxes and special purpose revenues, total FY 2023 General Fund revenue in the financial plan is \$10.73 billion, an increase of \$402 million, or 3.9 percent, over FY 2022.

### **Local Funds Expenditures**

The Mayor's Proposed FY 2023 Budget includes approximately \$10,663.4 million in spending supported by \$10,663.9 million of resources, with an operating margin of \$0.5 million, as shown in Table 1.

<b>Table 1</b>	
<b>FY 2023 Proposed Budget Summary</b>	
<b>Local Funds</b>	
<b>(\$ in millions)</b>	
Taxes	\$ 8,926.0
Non-Tax Revenues	475.7
Lottery	43.7
All Other Resources	775.1
Revenue Proposals	15.9
Fund Balance Use	427.5
<b>Total Local Fund Resources</b>	<b>\$ 10,663.9</b>
<b>Local Expenditures</b>	<b>\$ 10,663.4</b>
<b>Projected FY 2023 Operating Margin</b>	<b>\$ 0.5</b>

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

## Gross Funds Expenditures

The proposed FY 2023 gross funds operating budget is \$19.5 billion, an increase of \$1.2 billion, or 6.4 percent, over the FY 2022 approved gross budget of \$18.4 billion.

The Local and non-Local funding components of the proposed FY 2023 gross budget and the changes from FY 2022 are summarized in Table 2 below.

<b>Table2</b>				
<b>FY 2022 vs FY 2023 Gross Funds Budget by Fund Type</b>				
<b>(\$ in millions)</b>				
<b>Fund Type</b>	<b><u>FY 2022</u> <u>District's</u> <u>Approved</u></b>	<b><u>FY 2023</u> <u>Mayor's</u> <u>Proposed</u></b>	<b><u>Change</u></b>	<b><u>%</u> <u>Change</u></b>
Local	\$ 9,374.7	\$ 10,663.4	\$ 1,288.8	13.7%
Dedicated Tax	540.2	551.4	11.2	2.1%
Special Purpose	794.2	791.9	(2.3)	-0.3%
<b>Subtotal, General Fund</b>	<b>\$ 10,709.1</b>	<b>\$ 12,006.7</b>	<b>\$ 1,297.6</b>	<b>12.1%</b>
Federal	4,700.0	4,770.0	70.0	1.5%
Private	8.0	13.3	5.3	66.0%
<b>Total, Operating Funds</b>	<b>\$ 15,417.1</b>	<b>\$ 16,790.0</b>	<b>\$ 1,372.9</b>	<b>8.9%</b>
Enterprise and Other Funds (including from Dedicated Taxes)	2,942.5	2,744.8	(197.7)	-6.7%
<b>Total, Gross Funds</b>	<b>\$ 18,359.6</b>	<b>\$ 19,534.8</b>	<b>\$ 1,175.2</b>	<b>6.4%</b>

## MAJOR COST DRIVERS – LOCAL FUNDS

Overall, the proposed FY 2023 Local funds budget increased by \$1.29 billion or 13.7 percent, compared to FY 2022. Table 3 provides a snapshot of major cost drivers for the increase.

Table 3	
Mayor's FY 2023 Proposed Budget	
Cost Drivers - Local Funds (in millions)	Amount
<b>Major Changes:</b>	
Housing Production Trust Fund Subsidy	\$ 409.0
Repayment of Loans and Interest	\$ 163.1
Department of Human Services	\$ 153.9
District of Columbia Public Schools	\$ 91.5
District of Columbia Charter Schools	\$ 89.4
Department of General Services	\$ 81.3
Department of Health Care Finance	\$ 80.4
Washington Metropolitan Area Transit Authority	\$ 35.9

### **Primary Cost Drivers – Local Funds**

- **Housing Production Trust Fund Subsidy:** \$409 million over FY 2022 is attributed to supporting the goal of providing 36,000 new affordable housing units by 2025. This initiative was funded by ARPA-State Federal funding in FY 2022 in the amount of \$166.7 million.
- **Repayment of Loans and Interest:** \$163.1 million over FY 2022 is primarily attributed to an increase in debt service to support planned capital financing.

- **Department of Human Services:** \$153.9 million over FY 2022 is primarily attributed to \$44.4 million for the Family Rehousing and Stabilization program; \$34.2 million for the Emergency Rental Assistance Program (ERAP); and \$11.8 million to allow eligible District residents to receive cash assistance and mandated cost-of-living adjustments for the Temporary assistance for Needy Families (TANF), interim disability insurance and General Children and refugee programs.
- **District of Columbia Public Schools:** \$91.5 million over FY 2022 is attributed to an additional \$55.6 million to support the Uniform Per Student Funding Formula (UPSFF); \$19.4 million for IMPACT (teacher evaluation) bonuses; and a net \$16.5 million increase for stabilization, the Early Stages program, and the pandemic supplement.
- **District of Columbia Public Charter Schools:** \$89.4 million over FY 2022 is primarily attributed to the increase in the UPSFF and the pandemic supplement.
- **Department of General Services:** \$81.3 million is primarily related to the District's Fixed Costs operations, lease agreements, preventative maintenance costs at the District of Columbia's Public Schools, and the Life and Safety project.
- **Department of Health Care Finance:** \$80.4 million over FY 2022 is primarily attributed to \$26.7 million for increased Managed Care Organizations (MCO) projections; \$21.2 million for alternative healthcare for childless adults; \$10.3 million increased outpatient hospital taxes; and \$8 million for Disproportionate

Share Hospital (DSH) payments.

- **Washington Metropolitan Area Transit Authority:** \$35.9 million over FY 2022 is primarily attributed to the District's share of the jurisdictional operating subsidy, a 3.0 percent annual adjustment, plus legislative exclusions.

### **ITEMS TO MONITOR**

**DC Public Schools Vacancy Savings** – The central office division of the District of Columbia Public Schools' (DCPS) proposed FY 2023 budget was developed with a vacancy savings rate that is higher than the historic rate. Achieving this savings rate will require strict oversight and management of hiring to ensure overspending does not occur.

### **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 2023 through FY 2028 CIP is \$10.8 billion from all sources. Much of the capital budget will be financed with municipal bonds totaling \$6.2 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 2023 of \$2.5 billion of planned capital expenditures will be financed by \$1.5 billion in new Income Tax Secured or General Obligation bonds, \$283.5 million from new short-term bond financing, \$391.2 million in Pay-As-You-Go (Paygo), \$256.8 million in federal grants, primarily from the Federal Highway Administration (FHA), \$27.5 million for the Local Match to the FHA grants, and \$53.3 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 extremely difficult 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 process.